Annual Report for 1996

OPEN TEXT
Intranet

Corporate Mission Statement

Open Text is a leading provider of Intranet application software, tools and services that enable organizations to leverage the global reach and openness of Internet technologies, providing a powerful collaborative environment for communication, managing and working together....

Putting the Web to Work.™

To Our Shareholders

I'm pleased to announce that fiscal 1996 was a landmark year for Open Text Corporation. The company clearly defined its core business, sharply delineated critical milestones required for long-term success, and decisively took the necessary steps to establish a strong, profitable base for the future.

With these enterprise-building achievements to guide us, we believe 1996's progress can be measured by how well we have focused our resources, built technological capabilities for our core intranet business and positioned Open Text as a leader in the intranet market with our high-end suite of software products.

Highlights of 1996 include:

- Our initial public offering of 4.6 million shares in January 1996 raised US$61 million, net of offering costs
- The completion of strategic acquisitions designed to enhance our core competencies in intranet technology
- An increase in our workforce from 20 to almost 300 in a matter of months

To effectively manage increased investment, new acquisitions, and growth in staffing, we quickly moved to strengthen our senior management team and to restructure our operations to take advantage of the opportunities available in the exploding intranet market.

The result? A more efficient organization, capable of sustaining growth by capitalizing on Open Text's strengths in targeted market segments.

Tom Jenkins
President and Chief Executive Officer

OPEN TEXT Intranet

Putting the Web to Work

While most every software company is trying to carve out an Intranet niche, Open Text Corp. is well ahead and lengthening its lead with a new release of its Livelink suite.

Randy Barrett
Inter@ctive Week

Qualcomm Incorporated's patented digital wireless technology is pivotal in the current cellular and Personal Communications System explosion. To support time critical design deliveries to customers and strategic business partners, Qualcomm has purchased Livelink Intranet.

From Search Engines to Intranet Solutions

Open Text began its successful rise to prominence by building a powerful Internet search engine. As we developed our breakthrough search engine, the Internet emerged as one of the century's most significant new business communications platform. Open Text had the vision to recognize that a market with substantial potential would emerge, a market combining the ease and global reach of the World Wide Web with the privacy and security of internal corporate networks. These private webs were dubbed "intranets." The emergence of the intranet market would allow people to efficiently work together, share information and access corporate data, empowering staff and improving efficiency.

Open Text was among the first to understand the potential of intranets to facilitate people's work in large government and corporate environments. Guided by this vision, we implemented a strategy of acquiring technology in document management, workflow and collaborative computing which we married with our search engine technology. Today, we are working to provide world-wide customers with intranet technology that looks and feels like the World Wide Web. Why? According to a recent survey by Network World and International Data Corporation, an estimated 89 percent of large corporations are building intranets in calendar 1996, each spending an average of $2.6 million.

Our intranet product suite, Livelink, "puts the Web to work" by providing a powerful, secure environment for communication and information management. Power and security are of particular importance to organizations that handle massive amounts of technical data — sectors that include telecommunications, financial services, biotech/pharmaceutical, manufacturing and government.

Strategies for Long-Term Success

At Open Text, we realize that the intranet software market will become highly competitive. Even with the comparative advantage of being an early entrant, our long-term success will depend on our ability to execute an aggressive business plan guided by three key strategies — growth by acquisition, managing our growth and improved market positioning — strategies that have helped guide us through fiscal 1996.

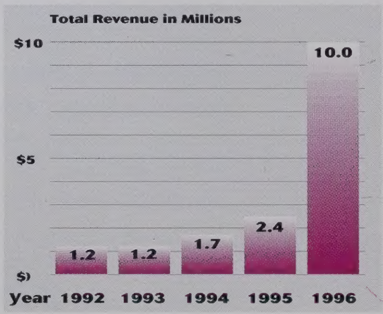
Growth by Acquisition

To achieve our growth objectives, we intend to continue to develop strategic assets that include technologies, products,

distribution and infrastructure. During the past year, Open Text has made seven acquisitions to enhance our technological and sales and deployment capabilities. These enhancements will allow us to quickly install products that meet the unique needs of each customer. As we expand, our goal is to build the critical mass necessary to maintain a leadership position in intranet technologies, products and services.

Managing Our Growth

Expanding our capabilities by acquisition requires paying close attention to organizational structure and management. In 1996, we supported the company's growth and evolution by hiring two senior managers — Keith Soley, Chief Operating Officer and Bill Stirlen, Chief Financial Officer — who between them have more than 50 years' experience in high-technology industries.



Their initial objectives were to refine our business model, identify and leverage our core competencies and implement stringent business systems and financial controls. A critical component of this process included rationalizing and streamlining our operations.

To focus our resources on specific markets, we restructured Open Text by consolidating our operations in Canada, closing a U.S.-based office dedicated to supporting Internet service applications and eliminating any duplicated jobs caused by corporate acquisitions.

Improved Market Positioning

Our third strategy is to make ourselves more visible and position Open Text as a leader in the emerging intranet software market. To this end, we stress our competitive difference — high-end technology and products — and carefully target our sales and marketing efforts.

Because of our precise marketing strategy, by fiscal year-end we generated more than 5,000 corporate leads, expanded the number of evaluations of Livelink to more than 150 accounts, and acquired some key clients. At the same time, we revamped our pricing models and established strict discounting policies for major accounts.

Financial Review

Financial results for the fiscal year as of June 30, 1996, reported under U.S. Generally Accepted Accounting Principles (GAAP), included revenues of US$10 million USD, up 400 percent from the $2.5 million reported for the previous year.

Bottom-line results, however, were impacted by several non-cash charges. For 1996, the company recorded write-offs of $31.6 million for amortization, depreciation and asset revaluation related to its various acquisitions and $3.4 million USD for restructuring of operations. Excluding these one-time charges, Open Text recorded a loss of $9.0 million for the year. Including these charges, the total loss was $43.2 million or $3.59 per share.

Open Text's very healthy balance sheet included cash and short-term investments of $51.1 million USD as of June 30, 1996. This increase reflects the net proceeds from our private placements and initial public offering. As at June 30, 1996, total shareholder's equity was $55.6 million.

Business Outlook

As we enter fiscal 1997, we recognize the many challenges ahead. Given the infancy of the intranet software market and the newness of products, customers are only now beginning to make significant commitments to our software products. As our customer base grows, resulting

Putting the Web to Work

in major new "win" announcements, we will continue to add new features and functionality to our products.

We will also continue to invest heavily in technology to provide our customers with leading-edge solutions and in sales and marketing to create the brand awareness needed to build market share. At the same time, we will further develop the management systems and controls required to support our growth.

At Open Text, we aim to capitalize on opportunities in the expanding intranet software market to penetrate large accounts in key segments and, over time, to achieve solid profits. We believe that our powerful, exciting technology, our talented pool of employees and our solid financial resources will enable Open Text to meet these objectives.

Throughout this evolutionary process, we thank you, our shareholders, for your continuing support. Moreover, we thank our employees, whose dedication and creativity have helped position Open Text as a market leader.

Sincerely,
Tom Jenkins

Tom Jenkins

President and Chief Executive Officer
December 1996

At Sony Microelectronics Company of America's San Antonio manufacturing site, workers require continuous access to procedural documents that are 100 percent accurate and up to date. Today the site uses a comprehensive Livelink Intranet system to make information available on demand, while greatly reducing turnaround time on revisions.

Open Text Corporation is a leading provider of intranet application software, tools and services that enable organizations to leverage the global reach and openness of Internet technologies within a powerful, collaborative environment for communicating, managing, and working together.

Corporate Vision

In early spring 1995, Open Text concluded that the real potential of the Internet would be achieved when its technology and standards were applied to business. The emerging technology was later called "intranet." Open Text's vision is to provide intranet software that enables organizations to become more productive and constructive in the most basic business process: people working together.

The Open Text Opportunity

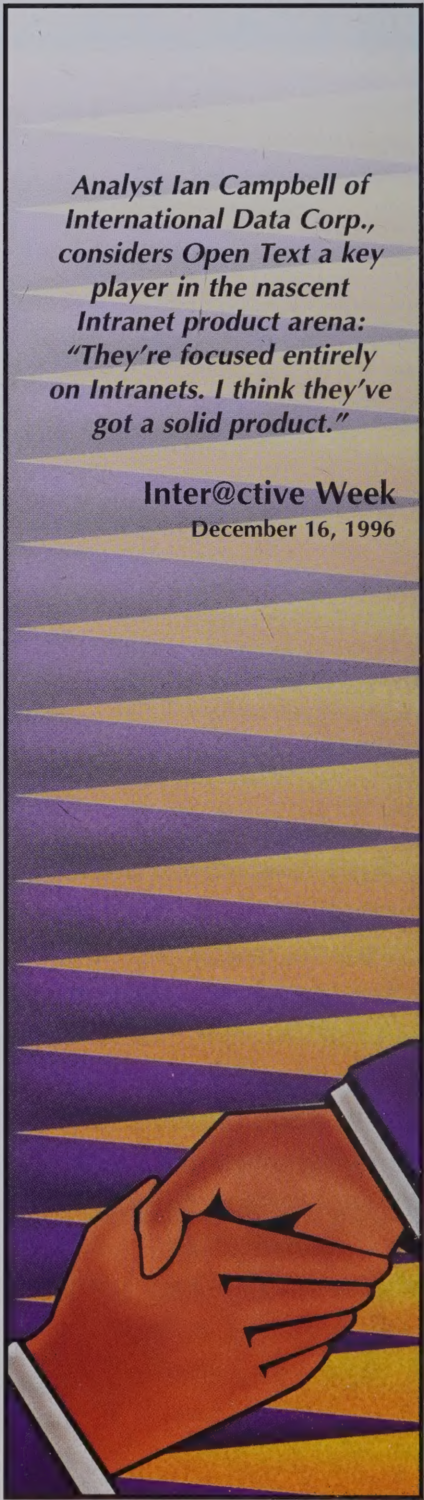
Technology, along with the simultaneous — and not unrelated — globalization of the economy, is rewriting the basics of the business environment. Open Text was founded on four basic beliefs about this new environment.

1. Intranets are the emerging computing platform.*

First there were mainframes, then microcomputers, then PCs, then workstations, then office networks. Now there are intranets. According to Zona Research, spending on intranet software in the U.S. alone will reach US$1.2 billion in 1997. International Data Corporation reports the intranet market will grow to $3.0 billion by the year 2000. IDC expects that as intranets are applied to more sophisticated applications such as business process management or support, the cost of implementation will rise. Companies will find it cost-effective to enhance their infrastructure with intranets because they will be able to more easily extend the reach of their business processes to remote users, partners, suppliers and even customers.

2. This new platform is profoundly connective.

PCs became the new corporate computing platform of the 80s because they put incredible processing power on the desktop of every knowledge worker. By providing connectivity, intranets hold the same type of potential as the PC revolution , – an environment for communication and management of information on a scale never before imaginable.



* *This paragraph contains forward-looking statements.*
See "Part I-Forward-Looking statements" in the accompanying report on Form 10-K.

Search massive amounts of information

Access control and version management for all documents

Workflow tools you need for on-time, on-budget delivery

Collaborative resources for your virtual teams

The information that needs your current attention

A place to keep and organize your personal files

Graphical maps show a project's progress at a glance

So easy to learn and use, you may not need this

3. Intranets improve the way people work together.

Intranets help eliminate the barriers that keep people from collaborating on projects effectively. With an intranet, all you need in order to "plug in" to your group is a Web browser, a phone jack and a password. No matter how many geographically distributed offices are involved and no matter whether the team members are at their desks or in a hotel room, the group can be productive.

4. An Intranet by itself is just plumbing and infrastructure.

Managing the difficult challenges working groups face requires robust applications to help find key information (search engine); to ensure the integrity of the information they develop (document management); to coordinate and manage the processes by which the group achieves its goals (workflow); and to enable the group to function at a high level of efficiency (project collaboration). This complete set of intranet solutions facilitates many business-critical functions by enabling organizations to leverage the global reach of the Internet.

Defining Intranets

The initial excitement about intranets was tied to an internal publishing medium that enabled a corporation to post its policies and procedures, human resources forms and sales materials. While this was important, it was really only the beginning of the many benefits intranets offer.

Intranets are about much more than reading. They are also about doing. They provide a universally available, cross-platform network that enables working groups to communicate, share tools and information, assign and track tasks and manage projects of any complexity.

Open Text is leading the way in defining intranets as a business-critical computing platform.

Problems solved

To date, the Internet and intranets have been a mixed blessing for businesses. While greatly increasing access to information and to other people, they have simultaneously created significant problems:

- Finding information is more difficult because so much is available
- Managing people is more challenging due to the worldwide distribution of resources over an intranet
- Maintaining accountability is harder because working groups

can be so easily pulled together without first having to establish lines of authority

- Controlling access to information with leading-edge technology is more complicated because the Web opens data floodgates

Open Text addresses each of these problems with its integrated combination of search engine, document management, workflow, and project collaboration tools.

The Livelink Difference

Open Text developed the Livelink suite of products — Livelink Intranet — to address this new market by capitalizing on the company's core strengths. These products, which run on both Microsoft Windows NT and most UNIX operating systems, comprise the first full-power intranet application suite on which even the largest organizations can run their business more effectively.

While the intranet market will be crowded, with software vendors trying to stake a claim, Open Text's Livelink Intranet has several clear advantages:

- Built for Webs. Livelink Intranet is designed to use open Internet standards — which lowers the risk of adoption for customers — and the Internet's look and feel, which greatly reduces users' training costs.

- Designed for business-critical applications. Livelink Intranet is the only intranet application suite to provide a powerful collaborative environment that can support any number of users, systems or locations. With just a Web browser and a password, workgroups and managers working from anywhere in the world can use fully integrated Livelink tools that can handle the most demanding environments.

- "Heavy Lifting" applications that are at the core of a business. It easily handles complex processes, data and documents. As a result, Livelink is currently being used to manage engineering change order systems, legal support systems, the creation of standard operating procedures in government-regulated industries and other demanding tasks.

- Rich feature set. No other intranet software package matches Livelink Intranet's richness of functionality. The core engines powering Livelink Intranet have been proven in the field to be superior for routing workflow, managing documents and organizing projects.

"The flexibility, openness and comprehensiveness of Livelink Intranet were the key factors in our decision to add Livelink to our intranet-based, information management systems."

"By integrating the document management, workflow and search capabilities of Livelink with the messaging, conferencing, security and administration features of SuiteSpot, our customers will enjoy a total intranet solution, on the most advanced UNIX and Windows NT servers available."

Robert Hoog
Siemens Nixdorf

Intranets have expanded the capabilities of groupware both physically, by allowing groupware to cross structural barriers, and functionally, by expanding the scope of applications possible. IDC expects intranets to continue as the catalyst of groupware and remain the driving force for the foreseeable future. Intranet-based groupware products such as Open Text's Livelink Intranet are leading this trend by meeting user expectations in the area of document management and workflow with tangible results.

International Data Corp.

- Fully integrated solution. Livelink Intranet is a complete solution, as it brings together functionality that customers typically must piece together themselves at great risk and cost. With Livelink Intranet, customers receive a completely integrated application that includes document management, search engine, workflow and project collaboration.

Livelink Intranet integrates powerful application tools into a single, easy to use system. Livelink Search lets you find documents with unprecedented speed, even across multiple networks, locations and technology types. Livelink Intranet's sophisticated document management system lets you organize and manage your information resources, guaranteeing information accuracy and access control. You can keep work processes on track with workflow tools that let you build and display visual workflow status maps in real time. Breakthrough project collaboration tools provide work-groups with a virtual meeting place for collaboration. Livelink Intranet is fully operational off the shelf, but you can add or alter functionality anytime with the Livelink Builder, a visual, object-oriented, cross-platform development environment. Access through an off-the-shelf Web browser or a high-power, completely interoperable client/server version ensures that Livelink Intranet is easy to use and integrates smoothly into your work environment.

Virtually any kind of organization can gain a competitive advantage with Livelink Intranet. You can lower the cost of developing products that comply with regulatory or corporate standards, accelerate your time to market by effectively managing globally distributed document repositories and processes and make the most of all your resources – people, information and technology. To test drive Livelink technology, visit our Web site at **http://www.opentext.com**

Intranet Opportunities Going Forward

In this environment — truly a generational shift in how corporations work — Open Text provides the software, tools and services that enable companies to take advantage of the new open, connective platforms known as intranets. As the market matures, Open Text believes that this very significant business opportunity will emerge, especially as new features and functionality are added to Open Text products.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended June 30, 1996.

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from ______________ to ______________

Commission file number **0-27544**

OPEN TEXT CORPORATION

(Exact name of Registrant as specified in its charter)

Ontario, Canada	**98-0154400**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
180 Columbia Street West Waterloo, Ontario	**N2L 3L3**
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: **(519) 888-7111**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, without par value

(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes __X__ No ____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Aggregate market value of the Registrant's Common Stock held by non-affiliates as of September 25, 1996 was approximately $44 million. The number of shares of the Registrant's Common Stock outstanding as of September 25, 1996, was 16,509,902.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the following documents are incorporated by reference to Part III of this Form 10-K: (1) Proxy Statement to be filed for registrants 1996 Annual Meeting of Stockholders or (2) Amendment to this Form 10-K.

PART I

Forward-Looking Statements

Certain statements in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or developments in the Company's industry, to differ materially from the anticipated results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to: the Company's limited operating history and losses, increases in expenses, unproven acceptance of the Company's products and services, risks involving the management of growth and integration of acquisitions, competition and new entrants in the market for the Company's products and services, product development risks and risks of technological change, liquidity and capital resources, dependence of the Company's business on adoption and use of the Internet and Intranets and the other risks and uncertainties described under "Business - Risk Factors" in Part I of this Annual Report on Form 10-K. Certain of the forward-looking statements contained in this Report are identified with cross references to this section and/or to specific risks identified under "Business - Risk Factors."

Item 1. Business

The Company

Open Text Corporation (the "Company") develops, markets, licenses and supports software for use on Intranets, local and wide area private networks, and the Internet that enables users to find electronically stored information, work together in creative and collaborative processes and distribute or make available to users across networks or the Internet the resulting work product and other information. The Company's principal produce line, *Livelink Suite,* integrates several modular engines including, but not limited to, search, collaboration, workflow and document management engines. The search component of the *Livelink Suite* is marketed as *Livelink Search.* The Company's search engine enables users to transparently search vast amounts of data stored in a wide variety of formats and in disparate locations, including World Wide Web sites. The Company's collaboration, workflow and document management engine enables users to establish and manage document-oriented collaborative work processes that involve a diversity of workers, computing platforms and data. In addition, the Company's products enable organizations to flexibly manage the distribution and availability of information. The Company has focused its efforts on its Intranet-related software and services, and its objective is to be the leading provider of information search, work process management and information distribution solutions for use on Intranets. The Company's strategy is to offer information search, work process management and information distribution products that collectively represent a suite of information management solutions addressing the needs of the spectrum of users of Intranets, local and wide area networks and the Internet.

The Company operates both directly and through a number of wholly-owned subsidiaries. The Company's material operating subsidiaries include: Odesta Systems Corporation, an Illinois corporation; InfoDesign Corporation, a Virginia corporation; Open Test U.S.A. Inc, a Delaware corporation; InfoDesign Corporation, an Ontario corporation and Network Software Group, Inc., a British Columbia corporation. The Company also owns Open Text International B.V., a Dutch holding company, which in turn owns Open Text AG, a Swiss corporation and Open Text UK Limited, a British corporation.

The Company was incorporated in June 1991 under the Business Corporation Act (Ontario). References herein to the "Company" refer to Open Text Corporation and its subsidiaries. The Company's principal executive offices are located at 180 Columbia Street West, Waterloo, Ontario, Canada N2L 3L3, and its telephone number at that location is (519) 888-7111. The Company's World Wide Web home page address is http://www.opentext.com.

Unless otherwise indicated, all dollar amounts in this Annual Report on Form 10-K are in United States Dollars.

Open Text, Open Text Index, Livelink, Internet Anywhere and *WorkSmart* are trademarks of the Company. Odesta is a registered trademark of the Company. This Annual Report on Form 10-K also includes trademarks of companies other than the Company.

Recent Acquisitions

Since June 1995, the Company has sought to substantially broaden its technology base and product offerings and strengthen its sales and customer support capabilities through a series of acquisitions of business with technologies that can be integrated with the Company's technologies and products to create a broad line of information management products. Pursuant to this strategy, the Company acquired Odesta Systems Corporation ("Odesta"), certain assets of Intunix AG ("Intunix"), the Internet Anywhere division of Mortice Kerns System Inc. ("Internet Anywhere"), certain assets of SoftCore UK Limited and SoftCore Technology Limited ("Softcore"), certain assets of NIRV Community Resource Centre, an Ontario not-for-profit corporation ("NIRV"), NSG Network Software Group, Inc., a British Columbia corporation ("NSG"), and InfoDesign Corporation, a Virginia corporation and InfoDesign Corporation, an Ontario corporation (collectively, "InfoDesign"). Odesta, InfoDesign and NSG and the acquired assets of Intunix, Internet Anywhere, Softcore and NIRV are referred to collectively, in this Annual Report on Form 10-K, as the "Acquired Businesses," and the Company's acquisitions of the Acquired Businesses are referred to as the "Acquisitions."

In October 1995, the Company acquired Odesta, an Illinois-based software company offering integrated workflow, document management and collaborative computing software marketed under the name "*Livelink.*" A key element of the Company's strategy has been to develop Odesta's *Livelink* technology to enables users to manage documents, establish collaborative workgroups and manage and track the progress of their work using Intranets and the Internet. The Company also has been integrating *Livelink* technology with the Company's former *Latitude* product-line technology to create the *Livelink Search* product, which enables users to find and retrieve information from an organization's Intranet and the Internet and from other Web sites and manage the distribution of information using Intranets and the Internet. Daniel Cheifetz, the President and principal stockholder of Odesta, is the Company's Executive Vice President, Research and Development.

In October 1995, the Company acquired certain of the assets of Intunix, based in St. Gallen, Switzerland. Prior to the acquisition, Intunix had developed and marketed in Europe an information management product using the search technology of a competitor of the Company, which technology was not acquired. The acquired technology was integrated with the Company's search engine technology to produce a product enabling a PC user to search the PC's hard drive, CD-ROM and the local area network to which the PC is connected, which is no longer marketed by the Company. Marco Palatini, the former Chief Executive Officer of Intunix, is the Company's Vice President, European Operations.

In August 1995, the Company acquired the business of Internet Anywhere in Waterloo, Ontario. The primary product of Internet Anywhere was a suite of integrated software applications designed to assist users with access to and use of the Internet.

In March 1996, the Company acquired Softcore, based in England, which was a value added reseller of the Company's products in Europe.

In June 1996, the Company acquired InfoDesign, NIRV and NSG. InfoDesign, based in Northern Virginia and Toronto, had been a systems integrator and a value added reseller of the Company's search technology, and had developed and marketed WorkSmart, an SGML document management and workflow software product, elements of which the Company intends to integrate into its *Livelink* product line. Many of InfoDesign's technical employees are familiar with the Company's technology and products, and will be

deployed to assist with development of customer applications, completion of product installations and to provide customer service. David Seaman, the President of InfoDesign, has become the Company's Vice President, Professional Services. NIRV, based in Toronto, Ontario had created and operated Internet protocol networks in Canada, and developed software technology relating to network management and administration that the Company intends to integrate with its products. Its technical employees are experienced in the installation and operation of Internet protocol networks, and will assist in product installations and customer service. NSG, based in Vancouver, British Columbia, consulted on the Company's *Open Text Index* development efforts and its employees, who have extensive experience working with Intranet networks, have been integrated into the Company's technical services division as well as customer support and installation.

Industry Overview

Organizations are increasingly seeking to streamline their business processes in order to increase worker productivity and reduce costs through the implementation of information management solutions. Through investments in traditional information management tools, organizations often establish a variety of data processing infrastructures that are rigidly designed to complete specific tasks or perform narrowly defined functions. As a result, organizations are increasingly faced with significant information management challenges attributable to rapidly increasing amounts of data created and stored in a variety of formats and in disparate locations across various networks. In addition, the emergence of the Internet as an important medium for communications is an increasingly significant influence on the configuration of network computing environments, and organizations are increasingly adopting private "Intranets" that are based on client/server architectures and that employ Internet data formats and communications protocols to connect geographically dispersed networks and facilities.

Proliferation of Information on Client/Server Networks and the Internet, and the Development of "Intranets"

In recent years, advances in computer hardware and software technology have resulted in dramatic increases in the amount of electronically stored information available to computer users. The ease of use, increased performance and declining cost of computer hardware and software have resulted in the rapid growth of the number of business and individual personal computer users and the migration of corporate networks from centralized mainframe systems to distributed local and wide area networks based on client/server architectures and, more recently, on peer to peer architectures. The prevalence of client/server networks facilitates the creation and storage of information on numerous computers in disparate locations and in a wide variety of files and formats. Client/server networks consist of desktop computers ("clients") that can access powerful computers ("servers") that store large amounts of information and perform computing functions on behalf of clients. These networks enable dispersed users to communicate with and access the information and other resources of other computers in the network across traditional geographic and organizational boundaries. As a result, information that is critical to organizations increasingly is created, managed and stored on a decentralized basis in numerous sites and in a variety of files and formats.

The rapid growth in the use of on-line services and the Internet has enabled both organizations and individual computer users to communicate with other users and access large amounts of information published for general public reference or for access by consumers. The Internet is a global web linking thousands of computer networks. Much of the recent growth in the use of the Internet is attributable to the emergence of the network of servers and information available on the Internet known as the World Wide Web. The Web employs a client/server architecture that, when integrated with "browser" software, enables non-technical users to exploit the capabilities of the Internet.

In addition to providing access to a vast array of information, the Internet represents a new medium through which organizations and individuals can conduct business. The potential benefits of conducting business on the Internet include direct, immediate communications with consumers, customers, vendors and other parties, increased access to a large and growing universe of organizations and

individuals, novel advertising opportunities and low communications and transaction costs. The amount of information available on the Internet, the commercial applications of the Internet, the number of Web sites on which data reside and the amount of data residing on individual Web sites are all increasing rapidly. As a result, both business and home computer users face the challenge of locating and retrieving the specific information that responds to their needs from the vast sea of data available on the Internet.

The Web is characterized by a standard document format described by the Hypertext Mark-Up Language ("HTML") and a standard information transfer protocol called Hypertext Transfer Protocol ("HTTP"). As organizations become familiar with the use of the Web, they are increasingly adopting Internet data formats and communications protocols, such as Transmission Control Protocol/Internet Protocol ("TCP/IP"), and using Web client and server software and, in some cases, the Internet's facilities as the backbone for private networks ("Intranets") that connect an organization's local area networks. The implementation of an Intranet is a low cost alternative to the establishment of a proprietary private network. Intranets enable network users to communicate and access information within an organization's boundaries, collaborate with external groups or individuals, including suppliers, customers and consultants, and use the Web to access information on the Internet and communicate with other Web users. An organization also may use its Intranet servers to publish documents and data on the Web that are created and resident on its Intranet. An increasing number of organizations are implementing Intranets as an alternative to traditional client/server networks. Accordingly, demand for business-oriented software solutions that support Internet protocols is increasing, and expected to continue to increase.

Need for Enterprise-wide Workgroup Solutions

Many of the critical business activities of an organization involve the use of non-relational data in the preparation or analysis of information. This information is often developed through the collective, coordinated efforts of many individuals who may work in different departments and geographical locations, or even outside the organization. Workgroups engaged in the preparation of documents and information on an individual or collaborative basis typically rely on unwieldy paper-based and electronic information management systems. Accordingly, managers and workers often have limited access to information, are unable to find relevant information on a timely basis or may work with information and documents that are out of date or the wrong version. In addition, traditional information management systems do not facilitate workgroup communications and collaboration, and force workgroups to rely on staff meetings, memoranda, conference calls, document facsimiles, voice messaging and other traditional methods of information exchange to assign tasks, track progress, discuss questions and problems, reach and communicate decisions and report results. As a result, the work of the group is hindered by incomplete information and a lack of communication and coordination, resulting in inefficiency and a suboptimal work product.

Client/server networks, the development of Intranets, and Internet connectivity provide an opportunity for more efficient access to and use of information stored on an organization's networks and on the Internet and the private networks of external organizations with which an organization collaborates. Specifically, Intranets can support the formation and management of collaborative workgroups composed of participants inside and outside the organization.

Market Opportunity

The Company believes that as organizations seek to increase the efficiency of their business processes, they will require software that permits users to find and retrieve information created with a variety of computers and stored in different formats and locations across an organization's Intranet and other networks, the Internet and the networks of other related organizations. In addition, the Company believes that an effective software solution will facilitate collaboration and the sharing of information and documents among designated workgroup members, and will enable managers to establish the workflow process by which a project will proceed, to manage and track the status of each element of the project, and to manage the distribution and availability of the work product and other information to the intended audience of users.

Because an organization's high-value documents and information are stored in increasingly disparate locations and formats, the organization's ability to enable its users to find information, work together and distribute information is an increasingly important element of its competitive advantage. Existing product solutions typically address only discrete parts of the information management problem, such as text retrieval, workflow management, document management or collaborative computing. As a result, the Company believes that organizations and individuals will demand an integrated software solution that enables users to find information, work together and distribute information in a way that increases the efficiency of an organization's business processes.

The Open Text Solution

The Company's *LiveLink Suite* enables users to find information, work together and share the resulting work product and other information to users across Intranets, local and wide area networks or the Internet. The Company's software supports original, native file formats and applications and does not require either the conversion of the information into new formats or the replacement of existing desktop computing tools. A key element of the Company's strategy is to develop the capability of its products to enable the formation of work groups and collaboration on Intranets and the Internet.

The Company's suite of software products addresses the following needs:

- *Find Information.* The Company's proprietary string search technology enables users to search the full text of databases and documents in response to a user query that is not limited to document titles or keywords. The Company's search technology is characterized by rapid response times that do not increase materially as the amount of data searched increases, if adequate server and communications resources are employed. The Company's search engine and related products enable users to find and view information, thus supporting both the creative and storage-related functions critical to individual and collaborative work processes. The Company's search and retrieval solutions address the needs of a variety of information users and include the *Open Text Index,* which allows computer users to search the Company's index of the Web, and *Livelink Search,* which enables organizations to index and search for information on their local and wide area networks and the Internet. *Livelink Search* was formerly known as *Latitude Web Server.*

- *Work Together and Share Information.* The Company's enterprise-wide collaboration, workflow and document management solution, enables organizations to establish and manage document-oriented collaborative work processes. It graphically represents the people, roles, information objects and processes involved in workgroup collaboration. It also executes and monitors workflow steps according to user-defined rules and procedures and facilitates communications and the sharing of information among members of a workgroup. Using *Livelink*, an organization can control access to documents, manage different versions and drafts, audit the creation and use of documents and manage the sharing of documents and information to selected users. *Livelink* supports the use of a variety of productivity software products, including standard word processing, spreadsheet and computer aided design ("CAD") programs.

The Company offers its solutions both as end-user products and as components that may be incorporated into OEM products and into the systems of large end-user organizations. A number of the Company's products have been internationalized for use with European languages and Japanese Kanji, and are being used by large commercial users in Europe and Japan. *Livelink Search* recently has been introduced in Chinese and Korean versions.

The Open Text Strategy

The Company's objective is to be the leading provider of information search, work process management and information distribution solutions to users of Intranets. Key elements of the Company's strategy are summarized below:

- *Provide Integrated Information Search, Collaborative Computing, Work Process Management and Information Sharing Solutions.* The Company has developed the capability of using *Livelink,* its collaborative workflow and document management system, to operate over Intranets and the Internet, and has integrated *Livelink* with *Livelink Search,* its tool kit for creating a Web site or Intranet capable of finding and retrieving documents using an index of an organization's network and other Web sites, and making selected documents and information available to the public over the Internet. The Company has entered into an agreement with Netscape that makes Netscape Navigator technology available for inclusion in the Company's client-based products and certain Netscape server technology available for inclusion in the Company's server-based products. The Company believes that this arrangement will contribute to the Company's ability to offer integrated solutions by assuring compatibility of its software solutions with this popular industry standard.

- *Leverage Technology in Extending Product Lines and Developing New Features and Applications.* The Company is continuing to develop the capability of *Livelink* to operate over Intranets and the Internet to improve and upgrade the product to create an integrated suite of information management solutions, and to provide for easier installation and integration with customer systems. The Company is also engaged in integrating other technologies acquired in the Acquisitions with its existing technologies and products to increase their capabilities and application to Intranets and the Internet. The Company also intends to enhance *Livelink Search,* its information search, retrieval and viewing solution, by improving its functionality in larger and more complex environments, by enabling the product to support SQL, the language of relational database management systems, and by adding other features. See "Product Development" and "Risk Factors - Product Development and Technological Change."

- *Increase Market Penetration through Multiple Distribution Channels.* The Company has historically sold its products principally through its direct sales force and OEMs. The Company intends to intensify its direct sales efforts. Accordingly, the Company has increased its direct sales force through the Acquisitions and new hires. In order to market its products to a wide variety of potential customers, the Company intends to further develop indirect distribution channels by establishing additional relationships with distributors, OEMs that incorporate the Company's software into products providing a particular solution and VARs that have particular access to distinct customer groups or geographical areas.

- *Build Awareness of the "Open Text" Brand through Internet Exposure.* The Company believes that awareness of the Company and its software solutions has increased as Internet users have been exposed to the Company's search and retrieval technology through their use of the *Open Text Index.*

- *Promote and Support Industry Standards.* The Company intends to continue to develop and market products that are consistent with applicable industry standards. The Company actively participates in the Document Management Alliance, a group responsible for developing and monitoring standards in document management. The Company is a member of SGML/Open, a consortium of leading SGML technology vendors. The Company also supports the development of the Web's Hypertext Markup Language through its participation in the HTML Working Group.

The Company has de-emphasized its consumer-oriented Internet activities and the development of the *Open Text Index* as a means of generating advertising revenue and has ceased marketing *Internet Anywhere* Internet access software on a retail basis, but continues to make the product available to OEMs and large accounts in connection with the Company's other products, and to satisfy obligations under existing customer contracts. The Company is exploring alternatives to maximize the value of its Internet technologies and know how. The Company believes these efforts may result in the formation, together with third parties, of new business units or joint ventures involving substantial investment of funds and/or technology transfers, the acquisition or disposition of product lines or businesses, or other initiatives. See "Risk Factors - Potential Future Acquisitions, Investments and Joint Ventures."

Products and Technology

Livelink Suite, the Company's enterprise-wide workgroup product solution, employs an architecture that enables organizations to connect standard desktop computers, networks, databases and servers in organization-wide network applications with integrated search, collaboration, workflow and document management functions. *Livelink* supports a variety of computing platforms including servers such as NT, Sun and Hewlett Packard and clients such as Microsoft Windows NT, Microsoft Windows 95, Apple Macintosh and UNIX.

Open Architecture. The architecture of the *Livelink Search* is modular and open, which allows applications of the Company's product suite to grow with a customer's requirements and databases and facilitates the customization of the product by the customer.

Livelink Suite includes:

- *Livelink Search* is a tool kit that facilitates an organization's creation of a Web site or an Intranet that enables users to find and retrieve information and documents using an index of the organization's network and other Web sites and enables the organization to make selected documents and information available to the public over the Internet. *Livelink Search* consists of publicly available Internet protocol software, the Company search engine, the Company's crawlers that create and maintain the index, an application programming interface that permits integration of the Company's indexing and search technology with network- and Web-based applications and administrative tools that track and monitor the use of the index.

- *Livelink Library* allows an organization to store, manage and retrieve documents of any type. The library module also controls access to documents and document modification privileges and tracks and manages the complete version history of all documents. In addition, *Livelink Library* provides a complete audit history of the document, manages the sometimes complex relationships and interdependency of documents and other data, and permits users to conduct searches within project documents.

- *Livelink Workflow* enables users to design and diagram the steps necessary to complete a project, work process or document. The software also routes personalized instructions, documents and other objects to each workflow participant and automatically moves the work item to the next step in the workflow based on the action or decision of the previous workflow participant. Managers can monitor the status of workflows to determine whether schedules are being met and which tasks are completed, late or have yet to begin.

- *Livelink Projects* enables workgroup members to collaborate with others in the group, share and discuss documents and manage and track project-related tasks and workflows.

Search and Retrieval Technology

Development History. The Company's full text indexing and search technology evolved out of the work of the Oxford English Dictionary project undertaken at the University of Waterloo in 1984 and

completed in 1989. This project, undertaken in cooperation with Oxford University Press, IBM and the Government of Canada, required the development of technology suitable for searching large databases containing complex, multilingual, highly irregular data structured in SGML format.

Core Algorithm. The Company's search engine extends the traditional inverted word index approach, which is a list of each indexed term that appears in a database, to provide a "string search" algorithm that enables a user to search for strings of data of arbitrary length, whether partial words, complete words or phrases. This algorithm indexes complete word series and phrases in context, in addition to individual terms. For example, inverted word search technology does not efficiently index common words such as "and," "the" and "is," because these words occur in numerous locations in each document, rendering searches for phrases such as "The Limited," "We, the people" and "to be or not to be" relatively slower. String search technology is also more easily adaptable to searches of databases in languages such as Chinese, Japanese, Korean and other languages that are not based on the European alphabet. These languages require multiple bytes to represent each character, and string search technology simply treats these characters as sequences of bytes in a string. Versions of *Livelink Search* supporting Japanese Kanji, Chinese and Korean are available for sale in Asian markets.

The index required in the application of string search technology requires the use of more memory than an inverted word index. Recent increases in computing speeds, memory size and hard drive capacity and reductions in the cost of memory have increased the size of data files that can be built and processed economically, making string search technology practical and cost effective.

Structured Documents and SGML. The Company's search engine also differs from conventional technologies in that it recognizes that documents are often characterized by complex structures. For example, documents often contain titles, headings, sections, subsections and paragraphs. The Company's search engine can search any number of different user-defined document structures without loss of performance. It fully supports SGML, the key international standard for structured documents.

Indexing. Most information retrieval products, including those developed by the Company, automate the index-building function. The *Livelink Search* component of the suite creates and maintains indexes through the use of "crawlers," software programs that search for and retrieve material to be indexed. Crawlers move from site to site, automatically identifying documents that need to be included or updated in the index. The Company's crawlers are designed to be "intelligent," avoiding duplicated material and updating material based in part on an assessment of its relevancy. Thus, new data added to a database can be added to the index without re-indexing the entire database. Deleted data similarly is removed from the index.

Graphical User Interface. The Company's search engine is accessible from a wide variety of user-friendly Graphical User Interfaces ("GUIs"). The GUI may be an "Internet browser," such as Netscape Navigator, as provided in *Livelink Search.* Alternatively, the GUI may be custom-built to suit the needs of any application using the *Livelink* application programming interface ("API").

Workflow and Document Management Technology

Livelink Builder is a cross-platform, object-oriented application development environment designed specifically for building collaborative Intranet solutions. *Livelink Builder* offers customers the ability to customize and extend the features of *Livelink System* to meet their particular needs. *Livelink Builder* provides OScript, a robust, extensible scripting language for developing application logic, a graphical window painter with object and color palettes, object workspaces for managing objects in *Livelink* and a complete set of workprocess APIs that encapsulate the key functionality of the workflow and document management engines.

Engines and APIs. *Livelink* includes a set of engines and APIs provide search, collaboration, workflow and document management functions that are accessible using HTML, C and the OScript

scripting language. For instance, providing search, collaboration, workflow and document management functions using the APIs to the workflow engine, application designers can add document routing to meet the organization's needs. The document engine treats documents as a central, built-in data type, much like other programming languages treat strings or integers. It supports basic document management functions including store, delete, retrieve, version and check-out.

Applications of Livelink and Distribution of Livelink

Livelink applications have been deployed for such varied uses as creating and updating operational manuals and safety information in the utilities industry; managing compliance with FAA-mandated air-worthiness directives in the airline industry; creating and monitoring clinical trial data and developing new drug applications in the pharmaceutical industry; managing engineering drawings and change control in the telecommunications industry; creating and managing standard operating procedures in the high-tech manufacturing industry; and developing and managing proposals in the aerospace industry.

The current version of *Livelink Suite* was released in April 1996 and the current version of *Livelink Search* was released in March 1996. *Livelink* is marketed by the Company's direct sales force, through distributors, such as Canon Sales Co., Inc. ("Canon") and Nissho Iwai in Japan, and through other indirect channels, including OEMs and VARs. *Livelink Search* is marketed by the Company's direct sales force to organizations that are publishing on the Web or establishing Intranets, to OEMs that wish to embed the Company's indexing and search technology in their Internet-based applications and to VARs. The average selling price of *Linklink Suite* is approximately $150,000. Any individual component of *Livelink* can be purchased separately for under $50,000.

Other Products

Open Text Index. The *Open Text Index* uses one of the Company's search engines and the Company's crawlers to index information located on the Web. The *Open Text Index* indexes every word of every page of information indexed, rather than a selection of key words. Although the amount of information available on the Internet is increasing rapidly, the Company seeks to keep pace with this growth by increasing the coverage of the *Open Text Index*. The Company believes that its crawlers have identified a substantial portion of the sites located on the Web. As of September 1, 1996, the *Open Text Index* had indexed over four billion words, numbers and addresses, which have been indexed from approximately four million Web pages. The *Open Text Index* has also indexed over ten million hyperlinks from indexed Web pages to other Web pages.

The Company has licensed the *Open Text Index* and ongoing updates to several Internet "gateways" to enable these gateways to provide the *Open Text Index* to their customers as part of their Web access service. The Company uses the *Open Text Index* to support Internet search requirements of certain *Livelink* customers. The Company has de-emphasized the effort to generate revenue and income from advertising in the Web Index, but continues to sell advertising on the Web Index.

Internet Anywhere. Internet Anywhere is a suite of integrated software applications designed to assist users with access to and use of the Internet. The Company has discontinued retail sales of *Internet Anywhere*, but continues to make the product available to OEMs and large accounts in connection with sales of the Company's other products, and to satisfy obligations under existing customer contracts.

Sales and Marketing

The Company's strategy is to achieve broad market penetration by employing multiple distribution channels, including direct sales, distributors, OEMs and VARs. The Company believes that the selected distribution channels will enable the Company to effectively market its wide range of products.

Direct Sales. The Company employs a direct sales force to market its products and component technology. Prior to June 1995, the Company employed three sales personnel and had two sales offices.

At September 30, 1996, the Company has consolidated the size of its worldwide direct sales force to 18 sales representatives based in 15 cities. The Company has closed the retail *Internet Anywhere* sales offices in Europe as well as its Paris office while aggressively expanding in North America.

Distributors. The Company has distribution agreements with both Canon and Nissho Iwai, under which both companies market the Company's products in Japan. The Company recently entered into an agreement with Omron whereby Omron bundles the Company's products with their own hardware. The Company also recently entered into a distribution agreement with Doosan to distribute the Company's products in Korea.

OEMs. The Company markets its products to selected OEMs, including independent software vendors, in order to embed its products and technologies in products marketed by companies with particular access to specific target markets or large installed customer bases.

VARs. VARs, including systems integrators, customize, configure and install the Company's software products with complementary hardware, software and services. In combining these products and services, the VARs are able to deliver complete information management solutions to address specific customer needs.

International Sales. In order to support its international sales effort, the Company has sales offices in England, Switzerland and The Netherlands. Since 1992, the Company has contracted with distributors in Japan to market its products to the Japanese market. In addition, the Company maintains relationships with OEMs and VARs in other Pacific Rim nations. *Livelink Search* currently supports European languages, Japanese Kanji, Chinese and Korean. The Company is internationalizing the *Livelink Suite*. A Japanese Kanji version of *Livelink Suite* is marketed by Canon to large customers in Japan.

The Company's revenues have been generated through relatively large sales to a relatively small number of customers. Sales to Omron Corporation of Japan and Doosan Information Corporation of Korea accounted for 7.8% and 7.0% of the Company's total revenues, respectively, in fiscal 1996.

Gateway Agreements

The Company has entered into gateway agreements with several Internet gateways. Pursuant to these agreements, the Company has licensed its search engine and the *Open Text Index* for use with the Internet information resource products offered by the gateways. The agreements with Internet gateways typically provide for the Company to receive license fees and may provide for fees based on a percentage of the revenue received by the gateway from advertisements viewed by gateway users who use the *Open Text Index.*

Investments

Deja News Corporation. The Company owns less than 20% of the stock of Deja News Corporation ("Deja News"). Deja News provides an index for searching Internet newsgroups on its own home page which is listed on the Netscape Navigator under the "Directory Search" button.

Yahoo! Inc. The Company owns 253,808 shares of Common Stock of Yahoo! Inc.

MacRAE's O.E.M. Mart, Inc. The Company owns a majority interest in MacRAE's O.E.M. Mart, Inc., which publishes and sells the industrial directory, "MacRAE's Blue Book."

Hook-up. The Company owns a minority interest in Hook-up Communication Corporation, a Canadian Internet access provider.

Customer Support and Services

The Company believes that its ability to offer a high level of customer support and service is critical to its success. Most of the Company's customer support service activities are provided through telephone support, and the Company is able to service most software problems remotely. The Company's major products are typically sold with an annual maintenance contract. The annual service fee typically is 15% of the total list price of the software system purchased and entitles the customer to remote support, product updates and maintenance releases. For additional fees, the Company offers training and consulting services and provides integration services for the purpose of customizing the Company's software to specific customer needs. The Company also maintains a "business partner support program" that provides training and support for OEMs and VARs. The Company is expanding its customer support staff. As of September 1, 1996, the Company employed 40 customer support and services personnel.

Competition

The markets for the Company's products are new, intensely competitive, subject to rapid technological change and evolving rapidly. The Company expects competition to increase in the future as the markets for the Company's products continue to develop and as additional companies enter each of its markets.

As a result of *Livelink Suite's* broad spectrum of functionalities, it has a number of competitors for each of its aspects. In the market for workflow and document management software, the Company competes with vendors of document management software, including Documentum, Inc., Interleaf, Inc., PC DOCS, Inc. and Saros. The Company also competes with collaboration software solutions such as Attachmate's Open Mind product, the RadNet products and Netscape's Collabra product. The industry may also position *Livelink* as a product that competes with established systems such as IBM's Lotus Notes and their recently introduced Domino product for the Web and systems from Novell, Inc. The Company believes that the principal competitive factors in this market include the full support for Intranets, functionality of the document management solution, integration of document management with workflow management applications and related enabling technologies, vendor and product reputation, product quality and performance, OEM and other relationships with providers of database and information systems to organizations, quality of product support, and price. The Company believes that *Livelink* competes favorably on the basis of these factors and is particularly well-suited for applications involving or requiring full support for Intranet environments on an enterprise-wide scale. The Company's competitors can be expected to enhance their existing products or to develop new products that will further integrate workflow, document management and collaborative computing features.

In the market for information search and retrieval software, the Company competes with Alta Vista Internet Software, Inc., Excalibur Technologies Corporation, Fulcrum Technologies, Inc., Information Dimensions, Inc., Personal Library Software, Inc., Verity, Inc. and others. The Company also competes indirectly with database vendors that offer information search and retrieval capabilities with their core database products. In the future, the Company may encounter competition from companies that enhance products such as document management systems, groupware applications, Internet products and operating systems to include information search and retrieval functions. The Company believes that the principal competitive factors in this market include the ability to search large amounts of data rapidly without degradation in performance, the ability to find and view information on disparate platforms in a variety of formats and locations, vendor and product reputation, the ability to index information comprehensively, ease of use, product architecture, product quality and performance, quality of product support and price. The Company believes that its search and retrieval technology competes favorably with respect to these factors.

In April 1996, Microsoft also introduced Microsoft Exchange Server which includes "groupware" functions such as search and collaboration. Microsoft can be expected to provide Internet and Intranet software as well as document management and other collaborative computing software that will compete directly with the Company's products. In addition, Microsoft has begun offering Internet browser software

free of charge under certain circumstances, which has caused competing providers of browser software to significantly reduce or eliminate charges for such software. The Company's ability to market *Internet Anywhere* was so adversely affected that the Company has stopped marketing *Internet Anywhere* as a stand-alone product. Similar marketing strategies by Microsoft or others may adversely effect other products of the Company.

Oracle has announced InterOffice, its scaleable, Web-based collaboration software which provides corporate Intranets with e-mail, scheduling, workflow and document management services, and recently announced a strategy to deliver a comprehensive product line to enable full-service Intranets. Oracle can be expected to provide Intranet software as well as document management and collaborative computing software that will compete directly with the Company's products.

The primary competitors of the Company's *Open Text Index* include Alta Vista Internet Software, Inc., Excite, Inc., InfoSeek Corporation, Lycos, Inc., America Online's Web Crawler, the McKinley Group's Magellan and Yahoo!. Several of these competitors have greater name recognition, superior financial and technical resources and more prominent positions on the Netscape Navigator and other internet gateways. The Company believes that the principal competitive factors in this market include relationships with Internet gateways, product name recognition and reputation, ease of use, reliability, search response time, and the extent to which the index covers the Internet. Alta Vista has replaced the *Open Text Index* as the principal search service for Yahoo! The Company has de-emphasized efforts to compete with these services for the generation of advertising revenue.

The Company's markets are the subject of intense industry interest, and the Company is aware of numerous other major software developers as well as smaller entrepreneurial companies that are focusing significant resources on developing and marketing software products and services that will compete with the Company's products and services. Numerous releases of products and services that compete with those of the Company can be expected in the near future. Certain of the Company's current and potential competitors may bundle their products with other software in a manner that may discourage users from purchasing products offered by the Company. Many of the Company's current and potential competitors in each of its markets have longer operating histories and significantly greater financial, technical and marketing resources, name recognition and installed product base than the Company. There can be no assurance that the Company will be able to compete effectively with current and future competitors. If significant price competition were to develop, the Company would likely be forced to lower its prices, which could have a material adverse effect on the Company's business, operating results and financial condition.

Product Development

As of September 1, 1996, the Company's research and development organization included 61 employees. A number of key technical staff have been developing text retrieval software since the 1970s. The Company's roots in the Oxford English Dictionary project provide eleven years of experience with full text retrieval software.

The Company's current product development efforts are focused on enhancing and broadening its information search, work process management and information distribution products. Areas of particular emphasis are the continued development of the capability of *Livelink* to operate on Intranets and the Internet and the integration of technologies acquired in certain of the Acquisitions with the Company's other technologies and products. See "Management's Discussion and Analysis of Financial Condition and Results of Operation —Overview." Improvement of search engine speed, development of more efficient Web crawler technology, integration of relational database management systems with the Company's software and enhancements of the user interfaces for all of the Company's products are other areas of ongoing activity for the product development organization. The Company intends to enhance *Livelink Suite* by increasing its ability to handle larger and more complex environments.

The Company is integrating *WorkSMART*, which provides a document management and work management environment for SGML data, into *Livelink Suite*. *WorkSMART* technology was acquired in the acquisition of InfoDesign.

The Company's ability to successfully develop and release new products and product enhancements in a timely manner is subject to a variety of factors, including its ability to solve technical problems and test products, competing priorities of the Company, the availability of development and other resources and other factors outside the control of the Company. There can be no assurance that the Company will not experience difficulties that could delay or prevent the successful development, introduction or marketing of new products and product enhancements. See "Risk Factors - Product Development and Technological Change."

Intellectual Property Rights

The Company's products are comprised of software owned by the Company or licensed to it. Dr. Gaston Gonnet and Dr. Frank Tompa, inventors of an early version of the search technology, acquired the rights to the software and technology and licensed it to the Company's predecessors in interest. Dr. Gonnet has conveyed his interest in the technology to the Company in settlement of litigation.

The Company's software products are generally licensed on a nonexclusive basis for internal use in a customer's organization. The Company also grants to third parties rights to market certain of its products either nonexclusively or under a limited-scope exclusive right to a particular application of the product(s) or to a particular geographic area. See "Sales and Marketing."

The Company relies on a combination of copyright, trademark and trade secret laws, non-disclosure agreements and other contractual provisions to establish and maintain its proprietary rights. The Company has not sought patent protection for its products. Enforcement of the Company's intellectual property rights may be difficult, particularly in some nations outside of the United States and Canada in which the Company seeks to market its products. Certain of the Company's license arrangements have involved the Company's agreement to make a limited confidential disclosure of portions of the source code for its products, or to place such source code into an escrow for the protection of the other party. Despite the precautions taken by the Company, it may be possible for unauthorized third parties to copy certain portions of the Company's products or to reverse engineer or obtain and use information that the Company regards as proprietary. Also, there can be no assurance that the Company's competitors will not independently develop technologies that are substantially equivalent or superior to the Company's technologies. While the Company's competitive position may be affected by its ability to protect its intellectual properties, the Company believes that such protection is less significant to the Company's success than other factors such as the knowledge, ability and experience of the Company's personnel, name recognition and ongoing product development and support. Although the Company does not believe it is infringing on the intellectual property rights of others, claims of infringement are becoming increasingly common as the industry develops and related legal protections, including patents, are applied to software products.

Sie-Base Technology Corporation, a privately held company located in Colorado ("Sie-Base"), has registered the term "Opentext" in The Supplemental Register of the U.S. Patent and Trademark Office. The Company believes that it has established a distinctive identification for its products and services through its use in the United States of the mark "Open Text" and related marks and that Sie-Base has not established such an identification. The Company has applied for registration of trademarks incorporating the term "Open Text" and, if necessary, will challenge the registration of Sie-Base, although there can be no assurance that the Company will be successful. Absent a favorable resolution, the Company may be limited in its ability to operate or market products in the United States under the name Open Text.

There can be no assurance that third parties will not assert infringement claims against the Company in the future, or that any such assertion will not result in litigation or require the Company to

obtain a license for the intellectual property rights of others. There can be no assurance that such licenses will be available on reasonable terms or at all.

Risk Factors

Prospective investors should consider carefully the following factors, as well as all of the other information set forth herein, in evaluating an investment in the Company's Common Stock.

Limited Operating History; Losses; Accumulated Deficit; Increased Expenses

The Company was founded in June 1991 and commenced shipment of its initial products in September 1991. The current versions of the Company's principal products were released during fiscal 1996 and thereafter, and the Company completed seven acquisitions after the end of fiscal 1996. Accordingly, the Company has only a limited operating history upon which an evaluation of its business and prospects can be based. The Company has incurred net losses in each of the last three fiscal years and expects that it will continue to incur net operating losses at least through fiscal 1997. As of June 30, 1996, the Company had an accumulated deficit of $46.5 million. The Acquired Businesses also have sustained substantial losses in recent periods. There can be no assurance that the Company can generate substantial revenue growth, or that any revenue growth that is achieved can be sustained. In addition, the Company has increased, and plans to increase further, its operating expenses in order to integrate the technologies and products of the Acquired Businesses into its existing business, fund higher levels of research and development, increase its sales and marketing efforts, develop new distribution channels, broaden its customer support capabilities and increase its administrative resources in anticipation of future growth. To the extent that increases in such expenses precede or are not subsequently followed by increased revenues, the Company's business, operating results and financial condition will be materially adversely affected. There can be no assurance that the Company will achieve or sustain profitability. In addition, in view of recent revenue growth, the rapidly evolving nature of its business and markets, its short operating history and its recent completion of the acquisitions of the Acquired Businesses, the Company believes that period-to-period comparisons of financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

Unproven Acceptance of the Company's Products and Services; Developing Market

The Company's principal products or product versions have been introduced only recently. The Company is working on the development of improvements to and new versions of its *Livelink* suite of products. The Company has experienced longer than anticipated installation times for these new products as they are integrated into customers networks, and as problems with the software were discovered which is normal for newly released software products. There can be no assurance that, despite testing by the Company, errors will not be found in software after release, or, if discovered, that the Company will be able to successfully correct such errors in a timely manner, or at all. If the Company is unable to successfully market its current products and services, develop new software products and services and enhancements to current products and services, correct errors and complete customer installations on a timely basis or complete products and services currently under development, or if the Company's products and services or enhancements do not achieve market acceptance, the Company's business, operating results and financial condition will be materially adversely affected.

The primary markets for the Company's software and services, particularly its software for Intranets, have only recently begun to develop and are rapidly evolving. As is typical in the case of a new and rapidly evolving industry, demand for and market acceptance of products and services that have been released recently or that are planned for future release are subject to a high level of uncertainty. If the markets for the Company's products and services fail to develop, develop more slowly than expected or become saturated with competitors, or if the Company's products and services do not achieve market acceptance, the Company's business, operating results and financial condition will be materially adversely affected.

Management of Growth; Restructuring and Restructuring Charge

In the past year, the Company has experienced rapid growth in revenues, personnel, research and development activities, number and complexity of product lines and product distribution channels. In addition, the Company's markets have evolved, and continue to evolve, at a rapid pace. The total number of employees of the Company has grown from 32 as of January 31, 1995 to 292 as of September 1, 1996. Many key members of the Company's management team have joined the Company in recent months. The recent acquisition of the Acquired Businesses have increased the number and complexity of product lines and services the Company markets and supports. The Company believes that continued growth in the breadth and complexity of its product lines and services and in the number of personnel will be required to establish and maintain the Company's competitive position.

The Company's growth, coupled with the rapid evolution of the Company's markets, has placed, and is likely to continue to place, significant strains on its administrative and operational resources and increased demands on its internal systems, procedures and controls. Expenses for the fourth quarter of fiscal 1996 significantly exceeded the Company's expectations, and certain goals were not met due in part to problems involving the management of growth. The number and rapid succession of acquisitions increase the difficulty of adequately integrating the product lines, services and personnel acquired. Recently, the Company has acted to focus its efforts on the *Livelink* product suite and to consolidate the operations of certain of the Acquired Businesses. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Focus on Intranet Software and Restructuring Charge". It is uncertain whether these actions will result in improved management of the Company's growth. There can be no assurance that the Company's administrative infrastructure, systems, procedures and controls will adequately support the Company's operations or that Company management will be able to achieve the rapid, effective execution of the product and business initiatives necessary to successfully penetrate the markets for the Company's products and services. If the Company is unable to manage growth effectively, the Company's business, operating results and financial condition will be materially adversely affected.

Integration of Acquisitions; Charges to Earnings

The Company does not have a significant history of operations on a combined basis with any of the Acquired Businesses. There can be no assurance that the Company will be successful in integrating the operations and personnel of the Acquired Businesses into its business, incorporating acquired technologies into its product lines, establishing and maintaining uniform standards, controls, procedures and policies, avoiding the impairment of relationships with employees and customers as a result of changes in management or overcoming other problems that may be encountered in connection with the integration of the Acquired Businesses. Certain initiatives involving use of technologies acquired with certain of the Acquired Businesses have been discontinued as the result of problems with management of growth and integration of the Acquired Businesses. See "-- Management of Growth; Restructuring and Restructuring Charge." Accordingly, the historical financial statements and pro forma financial performance of the Company and the Acquired Business may not be indicative of the results that would have been obtained had the Acquisitions occurred prior to the commencement of the periods covered therein. The acquisitions of the Acquired Businesses have been accounted for as purchases. Substantial amortization charges incurred in connection with the Company's acquisitions of the Acquired Businesses were recognized in the fiscal 1996. "See Management's Decision and Analysis of Financial Condition and Results of Operations."

The Company may seek to acquire or invest in businesses, products or technologies that expand, complement or are otherwise related to the Company's current business or products. If the Company consummates additional acquisitions in the future that must be accounted for under the purchase method of accounting, such acquisitions would likely further increase the Company's amortization expenses and the length of time over which they are reported.

New Product Development and Technological Change

The Company's success will depend on its ability to design, develop, test, market, sell and support new software products and enhancements of current products on a timely basis in response to both competitive products and evolving demands of the marketplace. In addition, new software products and enhancements must remain compatible with standard platforms and file formats. Presently, the Company is continuing to develop the capability for *Livelink* to enable users to form workgroups and collaborate on Intranets and the Internet, and is integrating aspects of the search engine technology and WorkSMART technology into *Livelink Suite*. The Company is also engaged in integrating technology acquired in the acquisition of certain of the Acquired Businesses with its other technologies and products. The Company increasingly must integrate software licensed from third parties, such as Netscape with its own software to create or improve Intranet and Internet products. These projects are key to the success of the Company's strategy, and there can be no assurance that the Company will be successful in developing and marketing these and other new software products and enhancements. If the Company is unable to successfully integrate the technologies acquired in the Acquisitions or licensed from third parties, to develop new software products and enhancements to existing products or to complete products currently under development, or if such integrated or new products or enhancements do not achieve market acceptance, the Company's business, operating results and financial condition will be materially adversely affected.

Potential Acquisitions, Investments, Joint Ventures and Other Business Initiatives

The Company has completed seven acquisitions and several investments during fiscal 1996, and continues to seek out opportunities to acquire or invert in businesses, products and technologies that expand, compliment or are otherwise related to the Company's current business or products. The Company also considers from time to time opportunities to engage in joint ventures or other business collaborations with third parties to address particular market segments. In particular, the Company is currently exploring alternatives to maximize the value of its Internet technologies and know-how. The Company believes that these efforts may result in the formation, together with third parties, of new business units or joint ventures involving substantial investment of funds and/or technology transfers, the acquisition or disposition of product lines or businesses or other initiatives. Such acquisitions, investments, joint ventures or other business initiatives may involve significant commitments of financial and other resources of the Company. There can be no assurance that any such activity will be successful in generating revenue, income or other returns to the Company, or that financial or other resources committed to such activities will not be lost.

Dependence on the Internet; Uncertain Adoption of the Internet as a Medium of Communications and Commerce

Rapid growth in interest in and use of the Internet is a recent phenomenon. The market for certain of the Company's products and services are highly dependent upon the increased use of the Internet for information publication and distribution and commercial applications. Critical issues concerning the commercial use of the Internet, including capacity, security, reliability, cost, ease of use, access, quality of service and acceptance of advertising, remain unresolved. If widespread commercial use of the Internet does not develop, the Company's business, operating results and financial condition could be materially adversely affected.

Dependence on the Adoption of Intranets; Uncertain Adoption of Intranets

The Company will rely heavily on the development of markets for products that support or increase the functionality of private Internet–protocol networks, or "Intranets," with respect to its *Livelink* Product Suite. The Company has developed an Internet-protocol version of *Livelink* and has products for use on Intranets and focused its resources on its Intranet software products. These products will be marketed to organizations with Intranets or that are considering the creation of Intranets. There are a number of concerns, including concerns relating to the effectiveness of technologies providing security for information resident on the organization's network, that may inhibit organizations from creating Intranets. There can be no assurance that Intranets will be adopted by large numbers of organizations, that

organizations will seek to enable users to collaborate over Intranets or that the Company's products will appeal to organizations that do so. If Intranets are not adopted by large numbers of organizations, or if organizations adopting Intranets do not select the Company's products, the Company's business, operating results and financial condition will be materially adversely affected.

Third Party Software

Developments of Internet and Intranet applications by companies, including by the Company, must rely on the stability, functionality and scalability of the infrastructure software of the underlying Intranet, such as that of Netscape, Microsoft and others. There can be no assurance that if weaknesses in third party software are detected, the Company will be able to correct or compensate for such weaknesses. If the Company is unable to address weaknesses resulting from problems in the infrastructure software such that the Company's products do not meet customer needs or expectations, the Company's business, operating results and financial condition will be materially adversely affected.

Competition; New Entrants

The markets for the Company's products are new, intensely competitive, subject to rapid technological change and evolving rapidly. The Company expects competition to persist, increase and intensify in the future as the markets for the Company's products continue to develop and as additional companies enter each of its markets. Among others, Microsoft, Netscape and Oracle have launched or announced major initiatives in the markets for Internet and Intranet software and services. Numerous releases of products and services that compete with those of the Company can be expected in the near future. There can be no assurance that the Company will be able to compete effectively with current and future competitors. Pricing policies of competition with respect to Internet software has adversely affected the market for the Company's *Internet Anywhere* product. If these or other competitors were to engage in such pricing policies with respect to other competing products, or significant price competition were to otherwise develop, the Company would likely be forced to lower its prices, which could have a material adverse effect on the Company's business, operating results and financial condition. See "Competition."

Liquidity and Capital Resources

The Company's cash and marketable securities and working capital were $51.1 million and $48.9 million, respectively, at June 30, 1996. During the year ended June 30, 1996, the Company's operations used cash in the amount of $12.4 million. The Company anticipates increased expenses in fiscal 1997. To date, the Company's operations have not generated sufficient cash to meet its requirements, and the Company has relied principally on the sale of securities to meet its cash needs. The Company does not believe that revenues will be sufficient to meet its cash requirements during fiscal 1997. However, the Company believes that the Company's existing cash will be sufficient to satisfy its requirements until at least June 30, 1997. See "Forward-Looking Statements." However, the Company regularly evaluates acquisitions, investments, joint ventures and other business initiatives, and cash expenditures for acquisitions, investments, joint ventures and other business initiatives or unanticipated expenses could create a need for additional financing. In addition, if the Company's operations do not begin to generate cash sufficient to satisfy its needs, the Company would require additional financing. There can be no assurance that such financing would be available if required. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

Potential Fluctuations in Quarterly Operating Results

The Company has experienced, and is likely to continue to experience, significant fluctuations in quarterly operating results caused by many factors, including changes in the demand for the Company's products, the introduction or enhancement of products by the Company and its competitors and market acceptance of those enhancements or products, delays in the introduction of products or enhancements by the Company or its competitors, customer order deferrals in anticipation of upgrades and new products, changes in the Company's pricing policies or those of its competitors, the mix of distribution channels through which products are sold, the mix of products and services sold, the mix of international and North

American revenues, foreign currency exchange rates and general economic conditions. The results of operations of the Acquired Businesses also have fluctuated and are likely to continue to fluctuate from period to period due to factors similar to those that have affected the Company.

A significant portion of the Company's historical revenues have been derived from relatively large sales to a limited number of customers, and the Company currently anticipates that future results will continue to reflect this trend. Because the decision by a customer to purchase the Company's products often involves relatively large-scale implementation across the customer's network or networks, sales of these products may entail a significant commitment of resources by prospective customers, accompanied by the attendant risks and delays frequently associated with significant expenditures and lengthy sales cycle and implementation procedures. In recent periods, installation of some of the Company's new products has taken longer than the Company anticipated, delaying the dates on which revenue from the sales could be recognized. Like many other software companies, the Company has generally recognized a substantial portion of its revenues in the last quarter of each year and in the last weeks of each quarter. Accordingly, the cancellation or deferral of even a small number of purchases or delay in installations of the Company's products could have a material adverse effect on the Company's business, results of operations and financial condition in any particular quarter. The Company also has noted historically lower sales in July and August than in other months, which has resulted in proportionately lower sales in the quarter ended September 30 than in other quarters. Because of the Company's limited operating history, the impact of the timing of product introductions, the effects of the Acquisitions and the rapid evolution of the Company's business and the markets it serves, the Company cannot predict whether seasonal patterns experienced in the past will continue. Due to all of the foregoing, and other factors, the Company believes that its quarterly operating results are likely to vary significantly in the future.

Risk of Capacity Constraints and System Failure Relating to *Open Text Index*

The performance of the *Open Text Index* is important to the Company's reputation, the success of its relationships with certain customers and Internet gateways and its ability to attract advertisers to the *Open Text Index*. The *Open Text Index* has experienced brief periods of service interruption, normally associated with implementation of software changes to the system, all of which to date have been promptly corrected. On several occasions increased usage of the *Open Text Index* and changes to hardware and software configuration have resulted in brief periods during which the *Open Text Index* has produced slow response times. The Company has made certain commitments under its gateway agreements to provide rapid response times and consistent system availability, and, accordingly, any slower response times or system failure could result in the termination of, or exposure to damages under, one or more of these agreements. The Company facility hosting the *Open Text Index* could suffer system breakdowns or damage from fire, earthquakes, power loss, telecommunications failures and similar events. Despite the implementation of network security measures by the Company, its servers are also vulnerable to computer viruses, break-ins and similar disruptive problems. Such problems could lead to interruptions, delays or cessation in service to the Company's *Open Text Index* users.

Intellectual Property Rights

The Company is highly dependent on its ability to protect its proprietary technology. There can be no assurance that the Company's efforts to protect its intellectual property rights will be successful. The Company relies on a combination of copyright, trademark and trade secret laws, non-disclosure agreements and other contractual provisions to establish and maintain its proprietary rights. The Company has not sought patent protection for its products. Enforcement of the Company's intellectual property rights may be difficult, particularly in some nations outside of the United States and Canada in which the Company seeks to market its products. Some of the Company's products are licensed under "shrink wrap" license agreements that are not signed by licensees and therefore may not be binding under the laws of certain jurisdictions. Despite the precautions taken by the Company, it may be possible for unauthorized third parties, including competitors, to copy certain portions of the Company's products or to reverse engineer or obtain and use information that the Company regards as proprietary. Although the Company does not believe that its products infringe on the rights of third parties, there can be no assurance that third parties

will not assert infringement claims against the Company in the future, or that any such assertions will not result in costly litigation or require the Company to obtain a license for the intellectual property rights of third parties. There can be no assurance that such licenses will be available on reasonable terms, or at all. Another company has registered the trademark "Opentext" in the United States. See "Intellectual Property Rights."

Dependence on Key Personnel; Recent Hires

The Company's performance is substantially dependent on the performance of its executive officers and key employees, most of whom have worked together for a relatively short period of time. The Company added Keith Soley as Chief Operating Officer and Bill Stirlen as Chief Financial Officer in July 1996. A number of other key executive officers and management personnel have joined the Company in recent months. The loss of the services of any of its executive officers or other key employees could have a material adverse effect on the business, operating results or financial condition of the Company. The Company does not maintain "key person" life insurance policies on any of its employees. The Company's success is highly dependent on its continuing ability to identify, hire, train, retain and motivate highly qualified management, technical and sales and marketing personnel, including recently hired officers and other employees. Competition for such personnel is intense, and there can be no assurance that the Company will be able to attract, assimilate or retain highly qualified technical and managerial personnel in the future. Ellen Beingessner, the Company's Vice President, Finance, William McAndrew, the Company's Vice President, Administration, and Timothy Bray, the Company's Senior Vice President, Technology left their positions with the Company during the first quarter of fiscal 1997.

Possible Volatility of Stock Price

The market price of the Common Shares has been highly volatile and subject to wide fluctuations. Such fluctuations in market price may continue in response to quarterly variations in operating results, announcements of technological innovations or new products by the Company or its competitors, changes in financial estimates by securities analysts or other events or factors. In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many high technology companies and that often have been unrelated to the operating performance of such companies or have resulted from the failure of the operating results of such companies to meet market expectations in a particular quarter. Broad market fluctuations or any failure of the Company's operating results in a particular quarter to meet market expectations may adversely affect the market price of the Common Shares. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such a company. Such litigation could result in substantial costs and a diversion of management's attention and resources, which would have a material adverse effect on the Company's business, operating results and financial condition.

Item 2. Properties

The Company leases approximately 13,000 square feet of office space at its headquarters in Waterloo, Ontario, and approximately 26,000 square feet of offices space at its office in Bannockburn, Illinois for its product development, marketing, consulting, support, administration and sales operations. Because of the rapid growth in the size of its business and the number of employees, the Company plans to move its headquarters to a new site in Waterloo with approximately 32,000 square feet and to expand its space at the Bannockburn office in the immediate future. The Waterloo lease covering 3,000 of the 13,000 square feet terminates on October 31, 1996, and the lease covering the remaining 10,000 square feet terminates on June 30, 1999. The lease for the new site in Waterloo is under negotiation but under the proposed terms, the lease will terminate on June 14, 2003. The Company will seek to extend its lease since it is unlikely that the move to the new site will be completed by October 31, 1996. The Bannockburn lease terminates on February 28, 2001. The Company also maintains Canadian field offices in Toronto, Ottawa and Vancouver; U.S. field offices in the Washington, DC area, New Jersey, Mountain View and San Mateo, California and Bethesda, Maryland; and international field offices in the London area, Amsterdam

and St. Gallen. The current annualized total rent for the Company and the Acquired Businesses is approximately $1,500,000.

The *Open Text Index* is currently contained on servers located in Mountain View. The Company anticipates closing the Mountain View office after the Open Text Index and data center are relocated from Mountain View, California to the Company's offices in Toronto, Canada.

Item 3. Legal Proceedings

Information concerning the settlement of certain legal proceedings is incorporated by reference from the Company's Report on Form 8-K filed with the Securities and Exchange Commission on September 27, 1996.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Executive Officers of the Registrant

The following table sets forth certain information as to the executive officers and directors of the Company as of September 1, 1996.

Name	Age	Title
P. Thomas Jenkins	36	Chief Executive Officer and President
Keith Soley	49	Chief Operating Officer
Michael F. Farrell	43	Executive Vice President, Business Development
Daniel Cheifetz	48	Executive Vice President, Research and Development
William Stirlen	57	Chief Financial Officer
David R. Seaman	34	Vice President, Professional Services
Peter T. Broughall	42	Vice President, Technical Services
Marco Palatini	43	Vice President, European Operations

P. Thomas Jenkins has served as a director of the Company since December 1994 and as the President of the Company since March 1995. From January 1995 until March 1995, he served as the acting President of the Company. From July 1994 to the present, Mr. Jenkins has also served as the Chief Operating Officer of the Company. From August 1993 until June 1994, he served as the Senior Vice President, Sales and Marketing, of DALSA, Inc., an electronic imaging manufacturer ("DALSA"). From December 1989 until August 1993, Mr. Jenkins served as the Vice President/General Manager of DALSA.

Keith Soley has served as the Chief Operating Officer of the Company since July, 1996. From 1982 to present, Mr. Soley served as president and chief executive officer of MediaWare Marketing, a management consulting firm. In 1985, Mr. Soley co-founded Antares Electronics, a networking company, and served as its president and chief executive officer from 1987 to 1993. In 1974, Mr. Soley co-founded SHL Systemhouse Ltd., a software consulting and integration corporation, and served as director of SHL and in several senior executive positions from 1974 to 1982. Through Media Ware, from August 1994

through July 1996, Mr. Soley served as Vice President, Global Business Development, of the Technology Development Division of SHL.

Michael F. Farrell has served as a director of the Company since November 1995 and as the Executive Vice President of the Company since October 1992. From October 1985 until April 1992, Mr. Farrell served as President of Interleaf Canada Ltd., a software and consulting services vendor providing document publishing and management software ("Interleaf Canada").

Daniel Cheifetz has served as a director of the Company since October 1995. From February 1992 until the present, Mr. Cheifetz has served as the President and Chief Executive Officer of Odesta, which was acquired by the Company in October 1995. From May 1982 until February 1992, Mr. Cheifetz served as the President of Odesta Corporation, the predecessor to Odesta, which Mr. Cheifetz founded in May 1982.

William Stirlen has served as the Chief Financial Officer of the Company since June 1996. From 1993 to 1994, Mr. Stirlen served as chief financial officer of Supercuts, Inc. From 1991 to 1993, Mr. Stirlen served as chief financial officer of Trimble Navigation, Ltd., a supplier of commercial navigation, positioning and communication data products.

David Seaman has served as the Vice President, Professional Services of the Company since July 1996. From 1990 to June 1996, Mr. Seaman was the president and founder of InfoDesign Corporation. Mr. Seaman also served as the Vice Chairman of the Board of Directors of the SGML Open from 1992 to 1993.

Peter T. Broughall has served as the Vice President, Technical Services of the Company since June 1995. From February 1992 until June 1995, Mr. Broughall served as the Director of Support Services of Switchview Inc., a telemanagement and automated call distribution software developer. From March 1989 until July 1991, Mr. Broughall served as the General Manager of MODCOMP Canada, Ltd., a minicomputer systems designer and manufacturer.

Marco Palatini has served as a director of the Company since November 1995 and as the Director, European Operations of the Company since October 1995. From December 1988 until October 1995, Mr. Palatini served as the Chief Executive Officer of Intunix, which he founded in December 1988.

PART II

Item 5. Market for Registrant's Common Equity and Related Stock Matters

The Common Stock began trading on the Nasdaq National Market on January 24, 1996 under the symbol "OTEXF" and has been trading there since that time. The following table sets forth the high and low closing bid price for the Common Stock, as reported by Nasdaq, for the periods indicated below. The prices set forth below reflect interdealer quotations, without retail markups, markdowns, fees or commissions and do not necessarily reflect actual transactions.

	High	Low
Year Ending June 30, 1996		
Third Quarter (commencing January 23, 1996)	$21.75	$10.00
Fourth Quarter	15.00	8.875

On September 25, 1996, the closing bid price of the Company's Common Stock on Nasdaq was $4.75 per share. At September 25, 1996, there were approximately 168 holders of record of the Company's Common Stock.

Exchange Controls and Other Limitations Affecting Holders of Common Shares

Investment Canada Act

Canada has no system of exchange controls. There is no law, government decree or regulation in Canada restricting the export or import of capital or affecting the remittance of dividends, interest or other payments to a non-resident holder of Common Shares, other than withholding tax requirements. See "Certain Tax Considerations—Canadian Federal Income Tax Considerations."

There is no limitation imposed by Canadian law or by the articles or other charter documents of the Company on the right of a non-resident to hold or vote Common Shares or Preferred Shares of the Company with voting rights (collectively, "Voting Shares"), other than as provided in the Investment Canada Act (the "Investment Act"), as amended by the World Trade Organization Agreement Implementation Act (the "WTOA Act"). The Investment Act generally prohibits implementation of a reviewable investment by an individual, government or agency thereof, corporation, partnership, trust or joint venture that is not a "Canadian," as defined in the Investment Act (a "non-Canadian"), unless, after review, the minister responsible for the Investment Act is satisfied that the investment is likely to be a net benefit to Canada. An investment in Voting Shares of the Company by a non-Canadian (other than a "WTO Investor," as defined below) would be reviewable under the Investment Act if it were an investment to acquire control of the Company, and the value of the assets of the Company were $5.0 million or more. An investment in Voting Shares of the Company by a WTO Investor would be reviewable under the Investment Act if it were an investment to acquire direct control of the Company, and the value of the assets of the Company equaled or exceeded $160 million. A non-Canadian, whether a WTO Investor or otherwise, would acquire control of the Company for purposes of the Investment Act if he or she acquired a majority of the Voting Shares of the Company. The acquisition of less than a majority, but at least one-third of the Voting Shares of the Company, would be presumed to be an acquisition of control of the Company, unless it could be established that the Company was not controlled in fact by the acquirer through the ownership of Voting Shares. In general, an individual is a WTO Investor if he or she is a "national" of a country (other than Canada) that is a member of the World Trade Organization ("WTO Member") or has a right of permanent residence in a WTO Member. A corporation or other entity will be a WTO investor if it is a "WTO investor-controlled entity" pursuant to detailed rules set out in the Investment Act. The United States is a WTO Member.

Certain transactions involving Voting Shares of the Company would be exempt from the Investment Act, including: (a) an acquisition of Voting Shares of the Company if the acquisition were made in connection with the person's business as a trader or dealer in securities; (b) an acquisition of control of the Company in connection with the realization of a security interest granted for a loan or other financial assistance and not for any purpose related to the provisions of the Investment Act; and (c) an acquisition of control of the Company by reason of an amalgamation, merger, consolidation or corporate reorganization, following which the ultimate direct or indirect control in fact of the Company, through the ownership of voting interests, remains unchanged.

Strategic Technologies Program

The Company is a member of a research consortium that has received a commitment for approximately $4.5 million in Canadian government funding through the Strategic Technologies Program (the "STP"). The Company has received $656,000 from the STP for work performed under the program through June 30, 1996. As a condition to such funding, recipients are prohibited from undergoing any change in control or material change in ownership, management or financing without the prior written consent of the Minister of Industry, Science and Technology (the "Minister"). Failure to comply with this restriction could result in the suspension of additional funding, the repayment of funding received to date under the STP and the assignment to the Minister of all equipment acquired and technology and intellectual property developed using such funding.

Canadian Federal Income Tax Considerations

The following summary is based upon the current provisions of the *Income Tax Act* (Canada) (the "ITA") and the regulations thereunder, all proposed amendments to the ITA and the regulations thereunder publicly announced by the Department of Finance, Canada prior to the date hereof, the current published administrative and assessing practices of Revenue Canada, Customs, Excise and Taxation ("Revenue Canada"), the Canada-United States Income Tax Convention (1980) (the "Convention"), and the amendments to the Convention contained in a protocol (the "Protocol") signed by Canada and the United States on March 17, 1995 and ratified on November 9, 1995. Except for the foregoing, this summary does not take into account or anticipate changes in the law or the administrative or assessing practices of Revenue Canada whether by legislative, governmental or judicial action and does not take into account or anticipate provincial, territorial or foreign tax considerations.

This summary relates to the principal Canadian income tax considerations under the ITA and the regulations thereunder generally applicable to purchasers of Common Shares hereunder who: (i) for purposes of the ITA, are not, have not been and will not be or be deemed to be resident in Canada at any time while they held or hold Common Shares, deal at arm's length with the Company, will hold their Common Shares as capital property, and do not use or hold, and will not and will not be deemed to use or hold their Common Shares in, or in the course of carrying on a business in Canada through a permanent establishment or in connection with a fixed base in Canada, and (ii) for purposes of the Convention, are residents of the United States and not residents of Canada.

Amounts in respect of Common Shares paid or credited or deemed to be paid or credited as, on account or in lieu of payment of, or in satisfaction of, dividends to a non-resident holder will generally be subject to Canadian non-resident withholding tax. Such withholding tax is levied at a basic rate of 25% which may be reduced pursuant to the terms of an applicable tax treaty between Canada and the country of residence of the non-resident holder. Currently, under the Convention, the rate of Canadian non-resident withholding tax on the gross amount of dividends beneficially owned by a person who is a resident of the United States for the purpose of the Convention and who does not have a "permanent establishment" or "fixed base" in Canada is 15%. However, where such beneficial owner is a company which owns at least 10% of the voting stock of the Company, the rate of such withholding is 10%. Under the terms of the Protocol, the 10% rate will be reduced to 7%, 6% and 5% for dividends paid or credited in 1995, 1996 and 1997 or later, respectively. The 15% rate is unaffected by the Protocol.

A purchase of Common Shares by the Company (other than a purchase of Common Shares by the Company on the open market in the manner in which shares would be purchased by any member of the public in the open market) will give rise to a deemed dividend under the ITA equal to the difference between the amount paid by the Company on the purchase and the paid-up capital of such shares determined in accordance with the ITA. The paid-up capital of such shares may be less than the non-resident holder's cost of such shares. Any such dividend deemed to have been received by a non-resident holder will be subject to a non-resident withholding tax as described above. The amount of any such deemed dividend will reduce the proceeds of disposition of the Common Shares to the non-resident holder for purposes of computing the amount of the non-resident holder's capital gain or loss under the ITA.

A holder who is not resident in Canada for purposes of the ITA will generally not be subject to tax under the ITA in respect of any capital gain or entitled to deduct any capital loss realized on a disposition of Common Shares unless at the time of such disposition such Common Shares constitute "taxable Canadian property" of the holder for purposes of the ITA and the holder is not entitled to relief under the Convention. If the Common Shares are listed on a prescribed stock exchange (which includes the Nasdaq National Market) at the time they are disposed of, they will generally not constitute "taxable Canadian property" of the non-resident holder at the time of a disposition of such shares unless such holder uses or holds or is deemed to use or hold such shares in or in the course of carrying on business in Canada or, at any time during the five year period immediately preceding the disposition of the Common Shares, 25% or

more of the issued shares of any class or series of the Company were owned by the non-resident holder, by persons with whom the non-resident holder did not deal at arm's length or by the non-resident holder and persons with whom the non-resident holder did not deal at arm's length. In any event, under the Convention, gains derived by a resident of the United States from the disposition of Common Shares will generally not be taxable in Canada unless such U.S. resident has a permanent establishment or fixed base in Canada or unless the value of the Common Shares is derived principally from real property situated in Canada.

When a non-resident holder dies holding Common Shares, such holder will be deemed to have disposed of such Common Shares for an amount equal to the fair market value thereof immediately before such holder's death and will be subject to the tax treatment with respect to dispositions described above. Any person who acquires such Common Shares as a consequence of the death of such holder will be deemed to have acquired such shares for their fair market value at that time.

United States Federal Income Taxation

The following discussion summarizes certain tax considerations relevant to an investment in the Common Shares pursuant to this offering by individuals and corporations who, for income tax purposes, are resident in the U.S. and not in Canada, hold Common Shares as capital assets, do not use or hold the Common Shares in carrying on a business through a permanent establishment or in connection with a fixed base in Canada and, in the case of individual investors, are also U.S. citizens (collectively, "Unconnected U.S. Shareholders"). The tax consequences of an investment in the Common Shares by investors who are not Unconnected U.S. Shareholders may be expected to differ substantially from the tax consequences discussed herein. The discussion is based upon the provisions of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), the Convention between Canada and the United States of America with respect to Taxes on Income and on Capital (the "Convention"), the administrative practices published by the U.S. Internal Revenue Service, and judicial decisions, all of which are subject to change. This discussion does not consider the potential effects, both adverse and beneficial, of any recently proposed legislation which, if enacted, could be applied, possibly on a retroactive basis, at any time. The discussion does not take into account the tax laws of the various state and local jurisdictions of the U.S.

Unconnected U.S. Shareholders generally will treat the gross amount of dividends paid by the Company equal to the U.S. dollar value of such dividends on the date of receipt (based on the exchange rate on such date), without reduction for the Canadian withholding tax, as dividend income for U.S. federal income tax purposes to the extent of the Company's current or accumulated earnings and profits. However, the amount of Canadian tax withheld (and, with respect to the foreign tax credit, in the case of certain U.S. shareholders that are corporations owning 10% or more of the Common Shares, a portion of the Canadian income tax paid by the Company) generally will give rise to a foreign tax credit or deduction for U.S. federal income tax purposes. Investors should be aware that dividends paid by the Company generally will constitute "passive income" for purposes of the foreign tax credit, which could reduce the amount of foreign tax credit available to a U.S. shareholder. The Code applies various limitations on the amount of foreign tax credit that may be available to a U.S. taxpayer. Investors should consult their own tax advisors with respect to the potential consequences of those limitations. Dividends paid on the Common Shares will not generally be eligible for the "dividends received" deduction. An investor which is a corporation may, under certain circumstances, be entitled to a 70% deduction of the U.S. source portion of dividends received from the Company if such investor owns shares representing at least 10% of the voting power and value of the Company. To the extent that distributions exceed current or accumulated earnings and profits of the Company, they will be treated first as a return of capital, up to the investor's adjusted basis in Common Shares, and thereafter as gain from the sale or exchange of the Common Shares.

In the case of foreign currency received as a dividend that is not converted by the recipient into U.S. dollars on the date of receipt, an Unconnected U.S. Shareholder will have a tax basis in the foreign

currency equal to its U.S. dollar value on the date of receipt. Any gain or loss recognized upon a subsequent sale or other disposition of the foreign currency, including an exchange for U.S. dollars, will be ordinary income or loss.

The sale of Common Shares generally will result in the recognition of gain or loss to the holder in an amount equal to the difference between the amount realized and the holder's adjusted basis in the Common Shares. Gain or loss upon the sale of Common Shares will be long-term or short-term capital gain or loss, depending on whether the shares have been held for more than one year. Preferential tax rates (currently 28%) for net capital gains are applicable to an Unconnected U.S. Shareholder which is an individual, estate or trust. There are currently no preferential tax rates for long-term capital gains for an Unconnected U.S. Shareholder which is a corporation. Short-term capital gains, however, are taxed at ordinary income rates.

Corporate capital losses are deductible to the extent of capital gains. Non-corporate taxpayers may deduct excess capital losses, whether short-term or long-term, up to US$3,000 a year (US$1,500 in the case of a married individual filing separately). Non-corporate taxpayers may carry forward unused capital losses indefinitely. Unused capital losses of a corporation (other than a Subchapter S corporation) may be carried back three years and carried forward five years.

Under current temporary U.S. Regulations, dividends paid on the Common Shares, if any, generally will not be subject to information reporting and generally will not be subject to U.S. backup withholding tax, however, dividends paid, and the proceeds of a sale of Common Shares, in the United States through a U.S. or U.S.-related paying agent (including, a broker) will be subject to U.S. information reporting requirements and may also be subject to the 31% U.S. backup withholding tax, unless the paying agent is furnished with a duly completed and signed Form W-9. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a refund or a credit against the Unconnected U.S. Shareholder's U.S. federal income tax liability, provided the required information is furnished to the Internal Revenue Service. It should be noted, however, that under proposed U.S. Treasury Regulations which are not yet effective and which are only to be applied prospectively, any dividends paid on the Common Shares will be subject to information reporting and potential 31% U.S. backup withholding tax. Whether and when such proposed regulations will become effective cannot be determined at this time.

Personal Holding Companies

A corporation, whether a U.S. corporation or non-U.S. corporation, may be classified as a personal holding company (a "PHC") for U.S. federal income tax purposes if both of the following tests are satisfied: (i) if at any time during the last half of the Company's taxable year, five or fewer individuals (without regard to their citizenship or residency) own or are deemed to own (under certain attribution rules) more than 50% of the stock of the corporation by value (the "PHC Ownership Test") and (ii) such non-U.S. corporation receives 60% or more of its U.S. related gross income, as specifically adjusted, from certain passive sources such as royalty payments (the "PHC Income Test"). Such a corporation is taxed (currently at a rate of 39.6%) on certain of its undistributed U.S. source income (including certain types of foreign source income which are effectively connected with the conduct of a U.S. trade or business) to an extent at least equal to which such income is not distributed to shareholders.

The Company does not believe that it currently satisfies the PHC Income Test and intends to manage its affairs so as to avoid becoming a PHC, to the extent consistent with its business goals.

Foreign Personal Holding Company

A non-U.S. corporation may be classified as a foreign personal holding company (a "FPHC") for U.S. federal income tax purposes if both of the following tests are satisfied: (i) at any time during the Company's taxable year, five or fewer individuals who are U.S. citizens or residents own or are deemed to own (under certain attribution rules) more than 50% of all classes of the corporation's stock measured by

voting power or value (the "FPHC Ownership Test") and (ii) the corporation receives at least 60% (50% in later years) of its gross income (regardless of source), as specifically adjusted, from certain passive sources (the "FPHC Income Test").

The Company does not believe that it satisfies either the FPHC Ownership Test or the FPHC Income Test. If the Company were to be classified as an FPHC, a portion of its "undistributed foreign personal holding company income" (as defined for U.S. federal income tax purposes) would be imputed to all of its shareholders who are U.S. holders of Common Shares on the last day of the Company's taxable year, or, if earlier, the last day on which it is classified as an FPHC. Such income would be taxable as a dividend, even if no cash dividend is actually paid. U.S. holders who dispose of their Common Shares prior to such date would not be subject to tax under these rules.

Passive Foreign Investment Company

A non-U.S. corporation will be classified as a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes if it satisfies either of the following two tests: (i) 75% or more of its gross income for the taxable year is passive income or (ii) on average for the taxable year (by value or, if the Company so elects, by adjusted basis), 50% or more of its assets produce or are held for the production of passive income.

The Company does not believe that it satisfies either of the tests for PFIC status. If the Company were to be a PFIC for any taxable year, U.S. investors would be required to either (i) pay an interest charge together with tax calculated at maximum ordinary income rates on certain "excess distributions" (defined to include gain on a sale or other disposition of Common Shares), or (ii) if a Qualified Electing Fund ("QEF") election is made, to include in their taxable income certain undistributed amounts of the Company's income.

Controlled Foreign Corporation

If more than 50% of the voting power of all classes of stock or the total value of the stock of the Company is owned, directly or indirectly, by citizens of the U.S., U.S. domestic partnerships and corporations or estates or trusts other than foreign estates or trusts, each of whom owns 10% or more of the total combined voting power of all classes of stock of the Company ("U.S. Shareholders"), the Company could be treated as a "controlled foreign corporation" under Subpart F of the Code. This classification would have many complex results, including the required inclusion by such U.S. Shareholders in income of their pro rata shares of "Subpart F income" (as specifically defined by the Code) of the Company. In addition, under Section 1248 of the Code, gain from the sale or exchange of Common Shares by a holder who is or was a U.S. Shareholder at any time during the five-year period ending with such sale or exchange would be treated as dividend income to the extent of earnings and profits of the Company attributable to the stock sold or exchanged. The Company does not believe that it is a controlled foreign corporation.

Dividend Policy

The Company has never paid cash dividends on its capital stock. The Company currently intends to retain earnings, if any, for use in its business and does not anticipate paying any cash dividends in the foreseeable future.

Item 6. Selected Consolidated Financial Data

The following table sets forth selected consolidated financial data of the Company for the periods indicated. The financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Consolidated Financial Statements of the Company and Notes thereto.

	Fiscal Year Ended June 30,				
	1992(2)	1993(2)	1994	1995	1996(3)
	(in thousands, except per share data)				
Statement of Operations Data:					
Total revenues	$ 1,434	$ 1,318	$ 1,728	$ 2,479	$ 9,995
Gross profit	1,404	1,193	1,534	2,098	6,183
Operating expenses:					
Research and development	270	169	503	709	4,531
Sales and marketing	249	557	889	1,565	8,466
General and administrative	638	663	689	783	3,658
Depreciation and amortization, including acquired research and development	22	41	67	144	30,793
Restructuring reserve	—	—	—	—	3,428
Total operating expenses	1,179	1,430	2,148	3,201	50,876
(Loss) income from operations	225	(237)	(614)	(1,103)	(44,693)
Foreign exchange gain	—	—	—	—	145
Interest income	—	—	—	—	1,478
Interest expense	(3)	(91)	(96)	(108)	(129)
(Loss) income for the year	$ 222	$ (328)	$ (710)	$ (1,211)	$ (43,199)
(Loss) income per share	$ .18	$ (.21)	$ (.38)	$ (.37)	$ (3.59)
Weighted average Common Shares outstanding(1)	1,210	1,580	1,894	3,242	12,042

	June 30,				
	1992(2)	1993(2)	1994(2)	1995	1996
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 24	—	—	—	$51,139
Working capital	123	$ 200	$ 394	$ (124)	48,892
Total assets	708	1,456	1,814	2,597	66,158
Long-term liabilities	35	54	282	157	742
Shareholders' equity	415	470	758	404	55,550

Footnotes to Selected Financial Data:

(1) See Note 2 of Notes to Consolidated Financial Statements for a description of the calculation of the weighted average number of Common Shares outstanding used in computing (loss) income per share.

(2) Canadian dollar amounts from prior periods have been translated into United States dollars solely for the convenience of the reader at the average rate for the relevant period, in the case of the statement of operations data, and the relevant year-end rate, in the case of the balance sheet data. These translations are not necessarily representative of the amounts that would have been reported if the Company historically had reported its financial statements in United States dollars. The exchange rates used are not necessarily indicative of rates in effect at any other time.

(3) Reflects the results of the Acquired Businesses from the time of acquisition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" and Note 4 of Notes to Consolidated Financial Statements.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Open Text Corporation develops, markets, licenses and supports software for use on Intranets, local and wide area private networks and the Internet that enables users to find electronically stored information, work together in creative and collaborative processes and distribute or make available to users across networks or the Internet the resulting work product and other information. Historically, the Company has focused its resources on developing and marketing information search and retrieval products. During fiscal 1996, the Company substantially broadened its technology base and product offerings, and strengthened its sales and marketing, distribution and customer support capabilities, through internal growth and the Acquisitions.

The Company has only a limited operating history upon which an evaluation of the Company and its prospects can be based. The Company's prospects must be considered in the light of the risks, expenses and difficulties frequently encountered by companies seeking to introduce new products into new and rapidly evolving markets. To address these risks and uncertainties, the Company must, among other things, successfully market its existing products and technologies and complete and introduce products under development in a timely manner, integrate the technologies, businesses and products of the Acquired Businesses with its current business and products, continue to upgrade and commercialize its technologies, attract, retain and motivate highly qualified personnel and manage rapid growth. There can be no assurance that the Company will successfully address these challenges. The Company has incurred losses in each of its last three fiscal years and at June 30, 1996, had an accumulated deficit of $46.5 million. The Company is presently operating at a loss, and there can be no assurance that the Company will be able to achieve or sustain profitability.

Since June 30, 1995, the Company completed the Acquisitions of seven businesses. See "Business — Recent Acquisitions" and Note 4 of Notes to Consolidated Financial Statements for additional information concerning the Acquisitions. The results of operations of the Acquired Businesses are included in the Company's results of operations from the dates of the Acquisitions. The Acquisitions have been accounted for under the purchase method of accounting and have resulted in the allocation of an aggregate of approximately $30.5 million to intangible assets during the year ended June 30, 1996. Of this amount, an aggregate of $27.6 million was allocated to purchased research and development and, under US GAAP, was charged immediately to expense. An aggregate of approximately $2.9 million was allocated to other intangible assets, to be amortized for periods ranging up to ten years from the dates of the respective Acquisitions. The total charges to income from amortization of purchased intangibles during fiscal 1996 amounted to $29.7 million, and at June 30, 1996, the Company had $735,000 in intangible assets resulting from the Acquisitions.

The Company's strategy in acquiring certain of the Acquired Businesses was principally to acquire technology which the Company believed could be adapted and integrated with the Company's existing products and technologies to develop information management software solutions applicable to Intranets and the Internet. See "Business - Recent Acquisitions", "Business - Product Development" and Note 4 of Notes to Consolidated Financial Statements. In order to complete the development of these products, the Company has been pursuing several significant research and development projects. The Company has been substantially modifying and expanding Odesta's *Livelink* technology to render it compatible with Internet protocols and with the Company's information search and retrieval technology. The initial release of an integrated product took place in the spring of 1996. Further integration and improvements to the product will continue to require the efforts of a substantial portion of the Company's research and development personnel. The Company is also continuing to integrate technology acquired with certain of the Acquired Business into its *Livelink* product suite. See "Business - Recent Acquisitions" and " - Product Development." The cost of these integration activities are included in research and development expenses. The Company's estimates of the feasibility of research and development projects and the time and resources necessary to complete them are subject to a variety of uncertainties inherent in

software research and development projects and may change as the projects proceed. See "Forward Looking Statements;" Business — Product Development"; and "Business — Risk Factors — New Product Development and Technological Change." There can be no assurance that the Company will successfully complete all or any of these research and development projects in a timely manner or at all.

The Company continues to seek out opportunities to acquire or invest in businesses, products and technologies that expand, compliment or are otherwise related to the Company's current business or products. In September 1996, the Company, together with a company controlled by one of the Company's directors, and other individuals not related to the Company incorporated MacRAE's O.E.M. Mart, Inc. ("MacRAE's") which will publish the industry directory MacRAE's Bluebook. See Note 18 of Notes to Consolidated Financial Statements. The Company also considers from time to time opportunities to engage in joint ventures or other business collaborations with third parties to address particular market segments. In particular, the Company is currently exploring alternatives to maximize the value of its Internet technologies and know-how. The Company believes that these efforts may result in the formation, together with third parties, of one or more new business units or joint ventures involving substantial investment of funds and/or technology transfers, the acquisition or disposition of product lines or businesses or other initiatives. Such acquisitions, investments, joint ventures or other business initiatives may involve significant commitments of financial and other resources of the Company. There can be no assurance that any such activity will be successful in generating revenue, income or other returns to the Company, or that financial or other resources committed to such activities will not be lost.

Focus on Intranet Software and Restructuring Charges

A number of competitive developments in certain of the Company's markets during the fourth quarter of fiscal 1996, together with the recognition of the need to integrate and consolidate the activities of the Acquired Businesses resulted in a decision by the Company to focus its efforts on its *Livelink* product line that has been integrated with the Company's search technology and modified to be compatible with Internet protocols. Due in part to rapid growth from the acquisitions of the seven Acquired Businesses, the Company's expenses in the fourth quarter significantly exceeded its expectations. After its initial release, customer interest in the *Livelink* Intranet product suite was substantial. Initial customer installations, however, proceeded more slowly and required more resources than anticipated as the Company resolved installation issues and retained and trained newly-hired employees and employees of the Acquired Businesses to support full scale *Livelink* deployments. Further, the Company concluded that the market for Intranet software presented an excellent market opportunity, but the likelihood of intense competition was foreseen. As a result, the Company concluded that focusing its technical, research and development, sales and marketing and management resources on the *Livelink* product line would enhance the product's market penetration.

In order to concentrate on the Intranet market opportunity for *Livelink*, the Company has also stopped marketing the *PC Search* product developed from technology acquired with Intunix and has stopped offering its *Open Text 5* search engine as a stand-alone product. As a result of intensely competitive pricing practices of competitors with respect to Internet browsers and access software, the Company has become unable to charge a price for its *Internet Anywhere* product that covers the cost of sales of the product. Accordingly, the Company has ceased marketing the product on a retail basis, but continues to make it available to OEMs and large accounts in connection with sales of the Company's other products, and to honor existing customer contracts.

The Company also determined that the level of expenditure and commitment of management and technical resources required to compete for advertising revenues with several well-financed providers of Internet search services was not justified by the advertising revenues being generated by the *Open Text Index* or likely to be generated in the future. The Company's relationship with *Yahoo!* terminated during the quarter ended June 30, 1996, and the Company has deemphasized the development of the *Open Text Index* as a means of generating advertising revenue. The Company continues to make the *Open Text Index* service available to users of the Internet and to certain customers of its *Livelink* search product.

As a part of its integration of the activities of the Acquired Businesses, and focusing its activities on its Intranet-related products and services, the Company incurred a pre-tax restructuring charge of $3.4 million. Included in this charge were a $1.3 million expense relating to the phase out of *Internet Anywhere* retail activity, and a provision of $2.1 million related to fixed assets and leases involved consolidation of Canadian operations to four locations in Waterloo, Toronto, Vancouver and Ottawa, the relocation of facility supporting the Open Text Index from Mountain View, California to Toronto, and the closing of an office in Paris, France. Of the $3.4 million charge, $2.4 million represents estimated future cash costs of the restructuring and the remainder represents revaluation of existing assets. In addition, the Company recorded a charge of $1.1 million for revaluation of goodwill obtained in prior acquisitions, during fiscal 1996.

During the quarter ending September 30, 1996, the company announced the termination of a number of employees, which will result in a charge to income of approximately $1.0 million in the quarter for severance compensations and benefits in accordance with U.S. GAAP requirements.

Results of Operations

During the year ended June 30, 1996, the Company sustained a loss of $43.2 million, or $3.59 per share. Of this amount, $31.6 million represented non-cash charges for amortization, depreciation and asset revaluation.

The following table presents, for the periods indicated, certain components of the selected financial data of the Company as a percentage of total revenues:

	Fiscal Year Ended June 30,		
	1996	1995	1994
Revenues:			
License	65.8%	69.8%	80.4%
Service	34.2	30.2	19.6
Total revenues	100.0	100.0	100.0
Cost of revenues:			
License	17.2	1.0	1.0
Service	20.9	14.4	10.2
Total cost of revenues	38.1	15.4	11.2
Gross profit	61.9	84.6	88.8
Operating expenses:			
Research and development	45.3	28.6	29.1
Sales and marketing	84.7	63.1	51.4
General and administrative	36.6	31.6	39.9
Depreciation and amortization	308.1	5.8	3.9
Restructuring	34.3	-	-
Total operating expenses	509.0	129.1	124.3
Loss from operations	(447.1)	(44.5)	(35.6)
Other income (expense)	14.9	(4.3)	(5.5)
Loss for the year	(432.2)%	(48.8)%	(41.1)%

Fiscal 1996 Compared with Fiscal 1995

Revenues. Total revenues include license revenues and service revenues, consisting of revenues from short- and long-term research and development and consulting contracts, customer support agreements and training and integration services contracts. Contract revenues are derived from contracts to develop applications, conduct research and provide consulting services. Contract revenues are recognized under the percentage of completion method, using a methodology that accounts for costs incurred in relation to total value under the contract after providing for any anticipated losses under the contract. Revenues from customer support agreements, which are generally for a term not exceeding one year, are recorded as deferred revenue when the agreement is executed and are recognized on a pro rata basis over the term of the agreement. Payments under customer support agreements are generally made in advance. Revenues from training and integration services are recognized in the period in which the services are performed.

Total revenues increased 303% from $2,479,000 in the year ended June 30, 1995 to $10 million in the year ended June 30, 1996. Revenues from licenses increased 280% from $1.7 million in the year ended June 30, 1995 to $6.6 million in the year ended June 30, 1996. The Company's information search and retrieval and workflow, document management and collaborative computing software accounted for 69% of revenues from licenses and *Internet Anywhere* accounted for 31%. Service revenues increased 360% from $749,000 in the year ended June 30, 1995 to $3.4 million in the year ended June 30, 1996. The increase in service revenues was primarily attributable to an increase in integration services provided to new license customers and the increase in support contracts provided to new and existing customers. Advertising revenue from the *Open Text Index* was not significant.

Cost of revenues. Cost of license revenues consists primarily of the costs of royalties payable to companies whose software is bundled in the Company's products, product media, duplication, manuals and packaging. All development costs incurred to date in the research and development of new software products and enhancements to current software products have been expensed as incurred. See Note 2 of Notes to Consolidated Financial Statements.

Cost of license revenues increased from $24,000 in the year ended June 30, 1995 to $1.7 million in the year ended June 30, 1996, increasing from 1% to 17.2% of total revenue. The increase was primarily due to increased royalties payable to companies whose software is being bundled in the Company's *Internet Anywhere* product, as well as packaging, and production costs relating to *Internet Anywhere*. Management anticipates that the cost of license revenues will decrease as a percentage of license revenues because of the phasing out of sales of *Internet Anywhere* as a retail product.

Cost of service revenues consists primarily of the costs of technical support personnel, product support and training. Cost of service revenues increased 486% from $357,000 in the year ended June 30, 1995 to $2.1 million in the year ended June 30, 1996, primarily due to additional personnel required to support the expanded activities of the technical services department. Cost of service revenues as a percentage of total revenues increased from 14.4% in the year ended June 30, 1995 to 20.9% in the year ended June 30, 1996. The Company believes that it must continue to enhance its customer service and support capabilities as its customer base expands.

Research and development expenses. The following table sets forth gross and net research and development expenditures and investment tax credits for the periods indicated:

	Year Ended June 30	
	1996	1995
	(In thousands)	
Gross research and development expenditures	$5,201	$1,087
Investment tax credits	(670)	(378)
Net research and development expenditures	4,531	709
Gross research and development expenditures as a percentage of total revenues	52.0%	43.8%
Net research and development expenditures as a percentage of total revenues	45.3%	28.6%

Research and development expenses consist primarily of engineering personnel expenses, contracted research and development expenses and facilities and equipment costs. The Company presently expenses all research and development costs as incurred. See Note 2 of Notes to Consolidated Financial Statements.

Net research and development costs increased by 539.1% from $709,000 in the year ended June 30, 1995 to $4.5 million in the year ended June 30, 1996 and increased as a percentage of total revenues from 28.6% in the year ended June 30, 1995 to 45.3% in the year ended June 30, 1996. The increase was the result of an increase in compensation expense as the Company significantly increased the number of research and development personnel through hiring and the Acquisitions in support of the Company's research and development projects.

As a Canadian Controlled Private Corporation ("CCPC"), the Company qualified for certain investment tax credits under the Income Tax Act (Canada) on eligible research and development expenditures. Prior to the Company's initial public offering in January 1996, refundable investment tax credits, which result in cash payments to the Company, have been recorded at a rate of 35% of eligible current research and development expenditures, and at a rate of 20% of eligible capital research and development expenditures, with an additional 10% recorded at the provincial level effective January 1, 1995. Prior to the Company's initial public offering, the Company was entitled to an investment tax credit at these rates for the first Cdn. $2.0 million of eligible current research and development expenditures and a further investment tax credit at the rate of 20% of eligible research and development expenditures in excess of Cdn. $2.0 million. Investment tax credits on current expenditures earned at the 35% rate are fully refundable to CCPCs. Investment tax credits earned by a CCPC on capital expenditures and investment tax credits earned at the 20% rate are refundable at a rate of 40% of the amount of the credit. The Company now earns investment tax credits at a rate of 20% of eligible current and capital research and development expenditures made after December 31, 1995. While a portion of investment tax credits earned when the Company was a CCPC were refundable, investment tax credits earned subsequent to December 31, 1995 only be used to offset income taxes otherwise payable.

The Company believes that significant investments in research and development are required to remain competitive in the software business. As a consequence, the Company expects the absolute amount of its expenditures on research and development to increase, mainly through the employment of additional development personnel, and such expenses may increase as a percentage of total revenues.

Sales and marketing expenses. Sales and marketing expenses consist primarily of compensation of sales and marketing personnel as well as expenses for trade shows, cost of facilities and other expenses related to the sales and marketing of the Company's products and services. Sales and marketing expenses increased 441% from $1.6 million in the year ended June 30, 1995 to $8.5 million in the year ended June 30, 1996 and increased as a percentage of total revenues from 63.1% in the year ended June 30, 1995 to 84.7% in the year ended June 30, 1996. The increase was due principally to expenses associated with increases in the number of sales and marketing personnel and related salaries and commissions, as well as expenses related to marketing public relations activities, marketing materials and trade shows to promote

expenses related to marketing public relations activities, marketing materials and trade shows to promote product introduction. Commencing in June 1995, the Company significantly increased the number of sales and marketing personnel in North America and Europe, both through new hires and through the Acquisitions. Sales and marketing expenses can be expected to increase in the aggregate and possibly as a percentage of total revenues, at least in the near term, consistent with the Company's increased sales and marketing efforts.

General and administrative expenses. General and administrative expenses consist primarily of salaries of administrative personnel and related overhead and facilities expenses. General and administrative expenses increased 367% from $783,000 in the year ended June 30, 1995 to $3.7 million in the year ended June 30, 1996 and increased as a percentage of total revenues from 31.6% in the year ended June 30, 1995 to 36.6% in the year ended June 30, 1996. The increase was attributable to the Acquisitions, an increase in professional fees relating to legal proceedings, an increase in occupancy costs as the Company has grown in size and scope, and an increase in bad debt expense resulting from a higher level of receivables. Since June 1995, the Company has increased the size of its management and administrative staff and believes that the level of general and administrative expenses in current and future periods will increase both in the aggregate as the company will install new management information systems, processes and controls in many areas of the business.

Depreciation and amortization expenses. Depreciation expense was $144,000 in the year ended June 30, 1995 and increased to $1.1 million in the year ended June 30, 1996. This increase was primarily attributable to equipment purchased to support ongoing operations and the *Open Text Index.* The Acquisitions resulted in the allocation of an aggregate of $27.6 million to acquired research and development which was charged to expense at the dates of the respective Acquisitions. Amortization of purchased software and goodwill amounted to $978,000 and $1.1 million, respectively, in fiscal 1996, including a charge at June 30, 1996 reflecting write-off of goodwill in connection with the Company's restructuring.

Interest. Interest expense has been incurred by the Company under its bank line of credit and capital equipment leases. Interest expense was $129,000 in the year ended June 30, 1996 compared to $108,000 in the year ended June 30, 1995, as the bank line of credit was paid off in August 1995, but interest on capital leases increased as additional equipment was put in place to support the *Open Text Index* and an increased number of employees. The Company recorded interest income in the amount of $1.5 million during the year ended June 30, 1996 resulting from cash balances from sales of securities. See "Liquidity and Capital Resources." Interest expense for the year ended June 30, 1996 relates primarily to interest on capital equipment leases.

Income taxes. A deferred tax asset of $9.2 million and $628,000 existed as of June 30, 1996 and June 30, 1995, respectively. A valuation allowance is recorded against a deferred tax asset if it is more likely than not that the asset will not be realized. In accordance with US GAAP, a 100% valuation allowance has been recorded by the Company because of the lack of profitability in the past, the significant risk that taxable income will not be generated in the future and the nontransferable nature of the deferred tax asset under certain conditions.

Fiscal 1995 Compared with Fiscal 1994

Revenues. Total revenues increased 43.5% from $1.7 million in fiscal 1994 to $2.5 million in fiscal 1995. Revenues from licenses increased 24.5% from $1.4 million in fiscal 1994 to $1.7 million in fiscal 1995, due principally to sales of new releases of the Company's search products, which were introduced in January and March 1995. Service revenues increased 121.6% from $338,000 in fiscal 1994 to $749,000 in fiscal 1995. The increase in service revenues was attributable to increased services performed on behalf of existing customers and new customers under initial customer support agreements. A significant portion of the Company's revenues have been generated through relatively large sales to a limited number of customers in each year. In fiscal 1994, one customer located in Switzerland accounted

10.9% of total revenues, respectively, and no revenues were received from customers in Switzerland, as no sales to the large Swiss customer were made in 1995.

Cost of Revenues. Cost of license revenues increased 41.2% from $17,000 in fiscal 1994 to $24,000 in fiscal 1995 and represented 1.0% of total revenues in each of fiscal 1994 and 1995. Cost of service revenues increased 101.7% from $177,000 in fiscal 1994 to $357,000 in fiscal 1995, primarily due to the establishment of a Technical Service Department during fiscal 1995 to satisfy increased service obligations. Cost of service revenues as a percentage of total revenues increased from 10.2% in fiscal 1994 to 14.4% in fiscal 1995.

Research and development expenses. The following table sets forth gross and net research and development expenditures and investment tax credits for the periods indicated:

	Year Ended June 30,	
	1995	1994
	(In thousands)	
Gross research and development expenditures	$1,087	$ 575
Investment tax credits	(378)	(72)
Net research and development expenditures	$ 709	$ 503
Gross research and development expenditures as a percentage of total revenues	43.8%	33.3%
Net research and development expenditures as a percentage of total revenues	28.6%	29.1%

Sales and marketing expenses. Sales and marketing expenses increased 76.0% from $889,000 in fiscal 1994 to $1.6 million in fiscal 1995 and increased as a percentage of total revenues from 51.4% in fiscal 1994 to 63.1% in fiscal 1995. The increase was due principally to expenses associated with increases in the number of sales and marketing personnel and related salaries and commissions and expenses related to marketing materials and trade shows. These expenses were incurred in connection with the Company's efforts to aggressively expand its distribution channels and to create market awareness of the Company's products. Sales and marketing expenses increased in the latter part of fiscal 1995 due to increased promotional activities and an increase in the size of the Company's sales force near the period end.

General and administrative expenses. General and administrative expenses increased 13.6% from $689,000 in fiscal 1994 to $783,000 in fiscal 1995, as a decrease in administrative salaries due to a reduction in the number of administrative personnel was offset by increases in other expenses, including occupancy and bad debt expenses. General and administrative expenses decreased as a percentage of total revenues from 39.9% in fiscal 1994 to 31.6% in fiscal 1995.

Net research and development costs have increased $206,000 in fiscal 1995 compared with fiscal 1994, but decreased as a percentage of total revenues from 29.1% in fiscal 1994 to 28.6% in fiscal 1995. Gross research and development expenditures increased by $512,000 in fiscal 1995 from fiscal 1994, but the increase was largely offset by an increase in refundable tax credits. The increase was the result of an increase in compensation expenses, as the Company more than doubled the number of research and development personnel.

Depreciation and amortization expenses. Depreciation and amortization expense increased from $67,000 in fiscal 1994 to $144,000 in fiscal 1995, as the result of depreciation of computer equipment purchased in the second half of fiscal 1994 that was being depreciated at the full annual rate in fiscal 1995, and the depreciation of office and computer equipment purchased in fiscal 1995.

Interest. Interest expense has been incurred by the Company under its bank line of credit and capital equipment leases. Interest expense increased 12.5% from $96,000 in fiscal 1994 to $108,000 in fiscal 1995.

Income taxes. The Company had a deferred tax asset of $628,000 and $549,000 as of June 30, 1995 and 1994, respectively. A 100% valuation allowance was recorded against this asset.

Income taxes. The Company had a deferred tax asset of $628,000 and $549,000 as of June 30, 1995 and 1994, respectively. A 100% valuation allowance was recorded against this asset.

Quarterly Results

The Company has experienced significant fluctuations in quarterly results that have been caused by many factors, including changes in demand for the Company's products, the introduction or enhancement of products by the Company and its competitors, market acceptance of those products or enhancements, delays in the introduction of products or enhancements by the Company or its competitors, delays involved in installing products with customers, the mix of distribution channels through which products are sold, the mix of products and services sold, the mix of international and North American revenues and general economic conditions. In addition, the Company acquired the Acquired Businesses during fiscal 1996 and is integrating their operations and products with its own. The results of operations of these businesses have also fluctuated from period to period as due to factors similar to those that have affected the Company. As a result, the Company believes that period-to-period comparisons of its results of operations, either on an actual or pro forma basis, are not necessarily meaningful and should not be relied upon as any indication of future performance. In addition, like many other software companies, the Company has generally recognized a substantial portion of its revenues in the last quarter of each fiscal year and in the last weeks of each quarter. The Company's revenues for the quarter ended September 30 of each fiscal year generally have been lower than revenues for other quarters, however, it is uncertain whether this trend will continue in current or future periods. Due to all of the foregoing factors, the Company's operating results in a particular quarter may fail to meet market expectations. See "Business—Risk Factors—Potential Fluctuations in Quarterly Operating Results."

Liquidity and Capital Resources

To date, license and service revenues have been insufficient to satisfy the Company's cash requirements. The Company has financed its cash needs primarily through sales of securities.

At June 30, 1996, the Company had current assets of $58.8 million and current liabilities of $9.9 million. The Company has credit facilities of $8.2 million, under which no borrowings were outstanding at June 30, 1996.

In January 1996 the Company completed an initial public offering with net proceeds of $61.4 million. The Company received net proceeds of approximately $20.6 million from sale of securities in private placements during fiscal 1996 before completion of the public offering. Cash used by operations during the year ended June 30, 1996 was $12.4 million. Net cash used for the payment of purchase price and acquisition costs relating to the Acquisitions was $8.9 million. In addition, the Company invested $2.2 million in the purchase minority interests in three companies (See "Business — Investments"), paid $1.8 million to repurchase Common Shares, reduced outstanding credit lines by $1.6 million and paid $944,000 on capital lease obligations.

The Company had liabilities with respect to capital leases of $1.4 million at June 30, 1996, with a current portion of $627,000, and operating lease obligations during fiscal 1997 of $1.8 million. The Company anticipates additional capital expenditures for equipment as the number of employees increases. The Company agreed to pay fees to Netscape over two years in connection with a license agreement which permits the Company to incorporate the Netscape Navigator with certain of its products. The Company has agreed to pay $518,000 in September 1996, in connection with the acquisition of assets of Intunix. The Company has agreed to pay $750,000 and $359,000 in cash to fulfill obligations remaining in connection with the acquisitions of InfoDesign and NIRV, respectively, subject to the satisfaction of certain conditions. See Note 4 of Notes to Consolidated Financial Statements.

Since June 30, 1995, the Company has completed the Acquisitions, hired additional employees, increased its sales, marketing and promotional activities, increased occupancy costs and otherwise increased the level of its business activity. This has resulted, and will continue to result, in cash requirements that significantly exceed those of previous years. The Company does not believe that revenues will be sufficient to meet its cash requirements during fiscal 1997. However, the Company

believes that existing cash and revenue from operations, will be sufficient to satisfy the Company's cash requirements until at least June 30, 1997. See "Forward-Looking Statements." However, the Company regularly evaluates acquisitions, investments, joint ventures and other business initiatives, and cash expenditures for acquisitions, investments, joint ventures and other business initiatives or unanticipated expenses could create a need for additional financing. In addition, if the Company's operations do not begin to generate cash sufficient to satisfy its needs, the Company ultimately would require additional financing. There can be no assurance that such financing would be available if required. See "Business — Risk Factors — Liquidity and Capital Resources."

Effects of Foreign Currency Exchange Rates and Inflation

Approximately 26% of the Company's revenues in each of fiscal 1996 and 1995 has been earned in currencies other than the United States dollar. In fiscal 1996 and 1995, the effects of fluctuations in currency exchange rates were not material. A portion of the Company's operating expenses, however, has been and will continue to be incurred in Canadian dollars. Accordingly, fluctuations in exchange rates between the United States dollar and other foreign currencies could materially affect the Company's results of operations. To date, the Company has not engaged in exchange rate hedging activities. To the extent that the Company implements hedging activities in the future with respect to foreign currency exchange transactions, there can be no assurance that the Company will be successful in such hedging activities.

While the Company believes that inflation has not had a material effect on its results of operations, there can be no assurance that inflation will not have a material effect on the Company's results of operations in the future.

Item 8. Financial Statements and Supplementary Data

Management's Report

Management is responsible for all the information and representations contained in the consolidated financial statements and other sections of this FORM 10-K. Management believes that the consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States and appropriate in the circumstances to reflect in all material respects the substance of events and transactions that should be included, and that the other information in this FORM 10-K is consistent with those statements. In preparing the consolidated financial statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being accounted for.

In meeting its responsibility for the reliability of the consolidated financial statements, management depends on the Company's system of internal accounting control. This system is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization, and are recorded properly to permit the preparation of consolidated financial statements in accordance with generally accepted accounting principles. In designing control procedures, management recognizes that errors or irregularities may nevertheless occur. Also, estimates and judgments are required to assess and balance the relative cost and expected benefits of the controls. Management believes that the Company's accounting controls provide reasonable assurance that errors or irregularities that could be material to the consolidated financial statements are prevented or would be detected within a timely period by employees in the normal course of performing their assigned functions.

The Board of Directors pursues its oversight role for these consolidated financial statements through the Audit Committee, which is comprised solely of Directors who are not officers or employees of the Company. The Audit Committee meets with management periodically to review their work and to monitor the discharge of each of their responsibilities. The Audit Committee also meets periodically with Price Waterhouse, the independent auditors, who have free access to the Audit Committee of the Board of Directors, without management present, to discuss internal accounting control, auditing, and financial reporting matters.

Price Waterhouse is engaged to express an opinion on our consolidated financial statements. Their opinion is based on procedures believed by them to be sufficient to provide reasonable assurance that the consolidated financial statements are not materially misleading and do not contain material errors.

Tom Jenkins Chief Executive Officer	William Stirlen Chief Financial Officer

September 16, 1996

Auditors' Report

To the Directors and Shareholders of
Open Text Corporation

We have audited the consolidated balance sheets of Open Text Corporation as at June 30, 1996 and 1995 and the consolidated statements of operations, shareholders' equity and cash flows for the years ended June 30, 1996 and 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements as of June 30, 1994 were reported on by other auditors whose report dated August 12, 1994 expressed an unqualified opinion on those statements.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these 1996 and 1995 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 1996 and 1995 and the results of its operations and cash flows for the years ended June 30, 1996 and 1995 in accordance with accounting principles generally accepted in the United States.

Price Waterhouse
Chartered Accountants

Kitchener, Canada
September 16, 1996

OPEN TEXT CORPORATION

CONSOLIDATED BALANCE SHEETS
(In U.S. Dollars)

	June 30, 1996	June 30, 1995
	(in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 51,139	—
Accounts receivable trade, net of allowance for doubtful accounts of $433 in 1996 and $42 in 1995	5,416	$ 1,182
Investment tax credits receivable	1,224	502
Prepaid expenses	846	135
Current portion of long-term receivables	133	93
Total current assets	58,758	1,912
Long-term receivables (Note 3)	—	138
Furniture and equipment (Note 5)	3,536	547
Other investments, at cost (market value $6,946)	2,227	—
Other assets	1,637	—
	$ 66,158	$ 2,597
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness (Note 6)	—	$ 961
Accounts payable - trade	$ 1,569	260
Accrued liabilities	3,926	356
Other liabilities	1,405	347
Provision for restructuring (Note 7)	2,339	—
Current portion of obligations under capital leases	627	112
Total current liabilities	9,866	2,036
Obligations under capital leases (Note 8)	742	157
Shareholders' equity:		
Share capital (Note 9)		
16,235,852 and 6,124,340 Common Shares issued and outstanding at June 30, 1996 and June 30, 1995 respectively	93,563	2,645
Other capital	9,116	—
Employee share purchase loans	(240)	—
Deficit	(46,549)	(2,241)
Cumulative translation adjustments	(340)	—
Total shareholders' equity	55,550	404
	$ 66,158	$ 2,597

OPEN TEXT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(In U.S. Dollars)

	Year Ended June 30,		
	1996	1995	1994
	(in thousands, except per share data)		
Revenues:			
License	$ 6,573	$ 1,730	$ 1,390
Service	3,422	749	338
Total revenues	9,995	2,479	1,728
Cost of revenues:			
License	1,719	24	17
Service	2,093	357	177
Total cost of revenues	3,812	381	194
Gross profit	6,183	2,098	1,534
Operating expenses:			
Research and development (Note 12)	4,531	709	503
Sales and marketing	8,466	1,565	889
General and administrative	3,658	783	689
Depreciation and amortization, including acquired research and development	30,793	144	67
Restructuring reserve (Note 7)	3,428	—	—
Total operating expenses	50,876	3,201	2,148
Loss from operations	(44,693)	(1,103)	(614)
Gain on foreign exchange	145	—	—
Interest income	1,478	—	—
Interest expense	(129)	(108)	(96)
Loss for the year	$ (43,199)	$ (1,211)	$ (710)
Loss per share	$ (3.59)	$ (0.37)	$ (0.38)
Weighted average number of Common Shares outstanding	12,042	3,242	1,894

OPEN TEXT CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in U.S. Dollars)

	Common Shares		Other Capital		Employee Share Purchase Loans	Retained Earnings (Deficit)	Cumulative Translation Adjustments	Total
	Shares	Amount	Number	Amount				
				(in thousands)				
Balance as of June 30, 1993	1,674	$ 751	—	—	—	$ 20	$ (20)	$ 751
Issuance of Common Shares	381	1,042	—	—	—	—	—	1,042
Foreign currency translation adjustment	—	—	—	—	—	—	—	—
Loss for the year	—	—	—	—	—	(710)	—	(710)
Balance as of June 30, 1994	2,055	1,793	—	—	—	(690)	(20)	1,083
Issuance of Common Shares	4,144	852	—	—	—	—	—	852
Repurchase of Common Shares	(75)	—	—	—	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	(320)	(320)
Loss for the year	—	—	—	—	—	(1,211)	—	(1,211)
Balance as of June 30, 1995	6,124	2,645	—	—	—	(1,901)	(340)	404
Issuance of Special Warrants	—	—	2,403	$ 8,673	—	—	—	8,673
Exercise of dissenters' rights	(391)	(131)	—	—	—	(1,389)	—	(1,520)
Issuance of Common Shares								
On conversion of special warrants	2,403	8,673	(2,403)	(8,673)	—	—	—	—
In connection with acquisitions	888	8,940	—	—	—	—	—	8,940
Under employee stock option plans	122	51	—	—	—	—	—	51
Under employee stock option plans in exchange for employee share purchase loans	1,675	240	—	—	$ (240)	—	—	—
In connection with private placements	1,182	11,956	—	—	—	—	—	11,956
From public offering, net of issuance cost of $2,755	4,600	61,415	—	—	—	—	—	61,415
On reversal of dissenters' rights	391	131	—	—	—	1,389	—	1,520
Common Shares set aside in connection with acquisitions (Note 4)	—	—	883	9,116	—	—	—	9,116
Repurchase of Common Shares	(758)	(357)	—	—	—	(1,449)	—	(1,806)
Loss for the year	—	—	—	—	—	(43,199)	—	(43,199)
Balance as of June 30, 1996	16,236	$ 93,563	883	$ 9,116	$ (240)	$ (46,549)	$ (340)	$ 55,550

OPEN TEXT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In U.S. Dollars)

	Year Ended June 30,		
	1996	1995	1994
		(in thousands)	
Cash flows from operating activities:			
Loss for the year	$ (43,199)	$ (1,211)	$ (710)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization, including acquired research and development	30,793	144	67
Write down of furniture and equipment	856	—	—
Changes in operating assets and liabilities:			
Accounts receivable	(3,753)	(194)	(268)
Investment tax credits receivable	(415)	(379)	80
Prepaid expenses	(584)	(104)	11
Accounts payable and accrued liabilities	3,382	300	(201)
Other liabilities	567	273	40
Net cash used in operating activities	(12,353)	(1,171)	(981)
Cash flows from investing activities:			
Acquisitions of furniture and equipment	(2,356)	(167)	(62)
Purchase of other businesses	(2,490)	—	—
Purchase of Odesta	(5,305)	—	—
Purchase of InfoDesign	(1,081)	—	—
Purchase of other investments	(2,227)	—	—
Additions to other assets	(753)	—	—
Net cash used in investment activities	(14,212)	(167)	(62)
Cash flow from financing activities:			
Payment of long-term debt, including current portion	—	(109)	112
Payments of obligations under capital leases, including current portion	(944)	(131)	(69)
Proceeds from issuance of Special Warrants	8,673	—	—
Proceeds from issuance of Common Shares	73,661	852	1,042
Employee share purchase loans	(240)	—	—
Repurchase of Common Shares	(1,806)	—	—
Increase (decrease) in bank indebtedness	(1,640)	726	(42)
Net cash provided by financing activities	77,704	1,338	1,043
Increase in cash and cash equivalents during the period	51,139	—	—
Cash and cash equivalents at beginning of year	—	—	—
Cash and cash equivalents at end of year	$ 51,139	$ —	$ —

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for each of the three years in the period ended June 30, 1996

(in thousands, except share and per share data)

NOTE 1—NATURE OF OPERATIONS

Open Text Corporation (the "Company") develops, markets, licenses and supports software for use on local and wide area networks, Intranets and the Internet that enables users to find electronically stored information, work together in creative and collaborative processes and distribute or make available to users the resulting work product and other information. The Company markets and sells its software to commercial end users across many industries through mainly direct sales efforts in primarily North America, Europe and Asia. The Company's shares trade publicly on the Nasdaq Stock Market - National market, under the symbol OTEXF.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

Reporting Currency

These consolidated financial statements are expressed in U.S. dollars and are prepared in accordance with U.S. generally accepted accounting principles. During 1996, the Company's functional currency changed from Canadian dollars to U.S. dollars, as the greater part of its operations is denominated in U.S. dollars.

Basis of consolidation

The consolidated financial statements include the accounts of Open Text Corporation and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated.

Accounting estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

All highly liquid investments with an original maturity of three months or less at the date of acquisition are classified as cash equivalents.

Investment tax credits until December 31, 1995

The Company, as a Canadian Controlled Private Corporation ("CCPC") prior to offering its shares to the public, was entitled to an investment tax credit at a rate of 35% of the first Cdn. $2.0 million of eligible current research and development expenditures. Investment tax credits on current expenditures earned at the 35% rate are fully refundable to the Company. Investment tax credits earned on capital expenditures at a rate of 20% are refundable at a rate of 40% of the amount of the credit.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment tax credits are accounted for as a reduction of the related expenditure for items of a current expense nature and a reduction of the related asset for items of a long-term nature when the Company has reasonable assurance that the credit will be realized.

Subsequent to December 31, 1995, the Company is entitled to an investment tax credit rate of 20% of eligible current research and development expenditures. The investment tax credit can be used to reduce tax otherwise payable.

Furniture and equipment

Furniture and equipment are stated at cost and are depreciated on a declining balance basis over the estimated useful lives of the related assets, generally three to five years. Leased assets are amortized on a declining balance basis over the lesser of the estimated useful life or the lease term. Gains and losses upon asset disposal are taken into income in the year of disposition.

Revenue recognition

a) License revenues

License revenues consist primarily of revenues from software license agreements. Revenues from the sale of software products are recognized upon delivery of the product if remaining vendor obligations are insignificant and collection of the resulting receivable is probable.

b) Service revenues

Service revenues consist of revenues from short- and long-term research and development and consulting contracts, customer support agreements and training and integration services contracts. Contract revenues are derived from contracts to develop applications, conduct research and provide consulting services. Contract revenues are recognized under the percentage of completion method, using a methodology that accounts for costs incurred in relationship to total revenues under the contract after providing for any anticipated losses under the contract. Software maintenance revenues are deferred and recognized ratably over the life of the service contract. Revenues from training and integration services are recognized in the period in which the services are performed.

Research and development costs

Costs related to research, design and development of products are charged to research and development expense as incurred. Software development costs are capitalized beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. To date, completing a working model of the Company's products and general release have substantially coincided. As a result, the Company has not capitalized any software development costs since such costs have not been significant.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities, measured at tax rates that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Concentration of credit risk

The Company maintains the majority of its cash and cash equivalents in Canadian federal government securities or short-term, interest-bearing, investment-grade securities and demand accounts of a major Canadian chartered bank.

The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral. The Company maintains allowances for potential losses, and such losses have been within management's expectations. No single customer accounted for more than 10% of the accounts receivable balance at June 30, 1996 and 1995.

Fair value of financial instruments

Carrying amounts of certain of the Company's financial instruments including cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other liabilities approximate fair value due to their short maturities. Based upon borrowing rates currently available to the Company for loans with similar terms, the carrying value of capital lease obligations and amounts payable approximate fair value.

Foreign currency translation

Assets and liabilities of certain foreign subsidiaries, whose functional currency is the local currency, are translated from their respective functional currencies to U.S. dollars at year-end exchange rates. Income and expense items are translated at the average rates of exchange prevailing during the year. The adjustment resulting from translating the financial statements of such foreign subsidiaries, when material is reflected as a separate component of shareholders' equity.

Employee stock option plans

The compensation cost associated with the Company's employee stock-based compensation plans are determined using the Fair Value measurement basis.

Computation of net loss per share

Net loss per share is computed using the weighted average number of shares of common and common stock equivalents outstanding. Common equivalent shares from stock options are excluded from the computation when their effect is antidilutive.

(in thousands, except share and per share data)

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent accounting pronouncements

In March 1995, the Financial Accounting Standards Board issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No 121 will be effective for fiscal years beginning after December 15, 1995, and requires long-lived assets to be evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company will adopt SFAS No.121 in fiscal 1997 and does not expect its provisions to have a material effect on the Company's consolidated results of operations in the year of adoption.

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 will be effective for fiscal years beginning after December 15, 1995, and will require the Company to select between the Intrinsic Value or the Fair Value basis of measurement when determining the compensation cost associated with its employee stock-based compensation plans. SFAS No. 123 recommends the Intrinsic Value measurement basis but will permit the continued use of the Fair Value measurement basis. As outlined above, the Company will continue to use the Fair Value basis when determining the compensation cost associated with its employee stock-based compensation plans.

NOTE 3—LONG-TERM RECEIVABLES

Prior to July 1, 1994, the Company offered long-term payment schedules to certain customers. These long-term accounts receivable were non-interest bearing and had been discounted to net present value at a rate of 8%. The terms of long-term accounts receivable ranged in length from one to four years, and were fixed in nature as contemplated by the Statement of Position 91-1 issued by the American Institute of Certified Public Accountants.

NOTE 4—ACQUISITIONS

The Company has completed several acquisitions since June 30, 1995, all of which have been accounted for by the purchase method of accounting. The results of the acquired businesses have been included in the Company's statement of operations from the date of acquisition.

Summary of acquisitions

	Odesta	InfoDesign	Other Acquisitions	Total
Consideration is as follows:				
Cash paid	$ 5,305	$ 1,081	$ 2,490	$ 8,876
Net liabilities assumed	—	—	1,103	1,103
Value of Common Shares issued	8,807	—	133	8,940
Value of Common Shares to be set aside to cover options granted and Common Shares to be issued	5,483	2,500	1,133	9,116
Amounts payable	—	750	665	1,415
	$ 19,595	$ 4,331	$ 5,524	$ 29,450

(in thousands, except share and per share data)

NOTE 4—ACQUISITIONS (continued)

Assets acquired, at fair value, are as follows:	Odesta	InfoDesign	Other Acquisitions	Total
Purchased research and development	$ 19,982	$ 3,997	$ 3,576	$ 27,555
Capitalized software	649	—	330	979
Goodwill	—	485	1,149	1,634
Other intangible assets	—	250	50	300
Other	(1,036)	(401)	419	(1,018)
	$ 19,595	$ 4,331	$ 5,524	$ 29,450

The following pro forma consolidated information shows the results of operations for the years ended June 30, 1996 and 1995 as if the above acquisitions had occurred at July 1, 1994 and acquired research and development costs were expensed as of July 1, 1994. The pro forma information is presented for information purposes only and is not necessarily indicative of what would have occurred if the acquisitions had been made as of those dates. In addition, the pro forma information is not intended to be a projection of future results expected to result from the integration of acquired businesses. The Company expects revenue from the integrated operations before growth in revenue from Livelink products to be lower than pro forma revenues as the Company has redeployed people and resources to support its suite of intranet products and has phased out retail internet products (see Note 7, provision for restructuring).

	Year ended June 30,	
	1996	1995
	(in thousands, except share and per share data)	
Pro forma total revenues	$ 15,680	$ 11,849
Pro forma loss for the year	$ (11,941)	$ (30,060)
Weighted average number of Common Shares outstanding	12,596	4,422
Pro forma loss per share	$ (0.95)	$ (6.80)

Odesta

In October 1995, the Company acquired all of the issued and outstanding common stock of Odesta Systems Corporation ("Odesta"), a U.S. software corporation offering integrated workflow, document management and collaborative computing software, for a total purchase price and associated acquisition costs aggregating $19,595. The purchase price was comprised of cash in the amount of $5,000 allowing Odesta to discharge certain of its liabilities and to pay bonuses to certain employees resulting from the acquisition, acquisition costs of $305, 880,745 Common Shares and options to purchase 548,255 Common Shares granted to members of the Odesta stock option plan at an exercise price of $.0005 per share which was calculated on

NOTE 4—ACQUISITIONS (continued)

Odesta (continued)

the basis of the exercise price of the Odesta options and the exchange ratio of Common Shares for Odesta common stock. Intangible assets totaling $20,631 was allocated to computer software and purchased research and development in the amount of $649 and $19,982, respectively. A net working capital deficiency of $1,320 and other assets amounting to $284 was also acquired. The purchased research and development costs were expensed at the time of acquisition. Acquired software has been completely amortized as of June 30, 1996 in accordance with SFAS No. 86.

InfoDesign

In June 1996, the Company acquired all of the issued and outstanding shares of InfoDesign Corporation, a Virginia corporation ("InfoDesign US") and all of the issued and outstanding shares of InfoDesign Corporation, an Ontario corporation, ("InfoDesign Canada") pursuant to a share purchase agreement between the Company and the holders of the aforementioned shares. InfoDesign US and Canada are systems integrators and had developed and marketed an SGML document management and workflow software product.

As consideration the Company agreed to issue up to 227,273 common shares in the capital of the Company valued at $11.00 per share, the market value of the Company's Common Shares as of April 18, 1996, and to pay up to $1,750 in cash. Both the number of shares and the amount of the cash component constituting the purchase price are subject to the final determination of the combined InfoDesign companies' net book value and revenue for the six-month period ended June 30, 1996 and on the InfoDesign companies meeting, on a combined basis, revenue targets for the six-month fiscal period ending December 31, 1996. Cash in the amount of $1,000 was paid at closing. The balance of the cash component, amounting to $750 and all of the shares to be issued will be delivered on two separate settlement dates following the delivery of the combined financial statements of the InfoDesign companies for the fiscal periods ending June 30, 1996 and December 31, 1996. The component of the consideration that relates to the revenue targets for the six-month fiscal period ending December 31, 1996 has been recognized as an amount payable of $750 and as Common Shares set aside of $1,000 as the Company is reasonably sure the amounts arising out of the contingencies will be paid.

The purchase price was $4,331, including acquisition costs of $81 and was in excess of identifiable assets by $4,732. The excess purchase price was allocated entirely to intangibles. An amount of $3,997 was allocated to purchased research and development costs which were charged to income upon acquisition, $250 was allocated to trademarks and $485 to goodwill. Goodwill will be amortized on a straight-line basis over ten years.

Other Acquisitions:

a) *Internet Anywhere*

During August 1995, the Company acquired certain assets and liabilities of the Internet Anywhere division of Mortice Kern Systems Inc. ("Internet Anywhere"), a provider of Internet integrated software applications, for a total purchase price and associated acquisition costs aggregating $1,513. The purchase price including acquisition costs in excess of identifiable assets

NOTE 4—ACQUISITIONS (continued)

Other Acquisitions - Internet Anywhere (continued)

of $68 has been allocated to purchased software costs and purchased research and development costs in the amount of $200 and $1,245 respectively. As at June 30, 1996, purchased computer software has been completely amortized in accordance with SFAS No. 86. Purchased research and development was expensed at the time of acquisition.

b) Intunix

During October 1995, the Company acquired certain assets of Intunix AG, a Swiss corporation ("Intunix"), a developer and marketer of information management products using search technologies on PC hard drives, CD-ROM and local area networks, for cash consideration of $504, plus associated acquisition costs of $130, an amount payable of $518 and options to acquire 25,578 Common Shares at an exercise price less than fair market value. The value of the Common Shares issuable upon exercise of these options less their exercise price amounted to $240. The total acquisition cost of Intunix was $1,392. Intangible assets with an assigned value of $1,313 was allocated to computer software at $129 purchased research and development at $934 and goodwill at $250. Identifiable assets totaling $79 were also acquired. As of June 30, 1996 purchased computer software has been completely amortized in accordance with SFAS No. 86. Purchased research and development costs were expensed at the time of acquisition. Goodwill in the amount of $250 has been written off due to the Company's restructuring of its European operations (see Note 7, provision for restructuring).

c) Softcore

In March 1996, the Company acquired certain assets of Softcore UK Limited, a British company ("Softcore"), a value-added reseller of the Company's products, for a total purchase price, including associated acquisition cost of $418. The purchase price included 9,382 Common Shares valued at $133. The purchase price in excess of identifiable assets of $38 was allocated to goodwill for $330 and to other intangibles for $50. The goodwill was charged to income as a result of the Company's restructuring of its European operations (see Note 7, provision for restructuring).

d) Nirv

During June 1996, the Company acquired certain assets of Nirv Community Resource Centre for a total purchase price of $1,632. The purchase price was comprised of cash consideration and acquisition costs of $48, an amount payable of $147, the assumption of a portion of Nirv's net liabilities of $1,103, and the allocation of 30,644 Common Shares as Common Shares set aside for $334 based on the market value of the Company's Common Shares as of June 30, 1996. A certain number of the Common Shares are held in escrow and will be released subject to collection of accounts receivable within the next fiscal year. The Company is reasonably sure it will be obligated to issue the Common Shares.

At the time of acquisition, Nirv had identifiable assets of $234. The purchase price in excess of identifiable assets of $1,398 was allocated to purchased research and development and was expensed at the time of acquisition.

(in thousands, except share and per share data)

NOTE 4—ACQUISITIONS (continued)

Other Acquisitions (continued)

e) NSG

In June 1996, the Company acquired all issued and outstanding shares of Network Software Group ("NSG"), a consulting company. The total purchase price, including associated acquisition costs of $10 amounted to $569 and was entirely allocated to goodwill. Due to the Company's relocation of its Web Index site and focus on its core Intranet products, the entire goodwill was charged to income on the date of acquisition (see Note 7, provision for restructuring).

NOTE 5—FURNITURE AND EQUIPMENT

	June 30, 1996		
	Cost	Accumulated Depreciation	Net
Furniture and fixtures	$ 678	$ 152	$ 526
Office equipment	80	34	46
Computer hardware	2,444	755	1,689
Assets under capital leases	1,560	524	1,036
Leasehold improvements	255	16	239
	$ 5,017	$ 1,481	$ 3,536

	June 30, 1995		
	Cost	Accumulated Depreciation	Net
Furniture and fixtures	$ 98	$ 18	$ 80
Office equipment	50	24	26
Computer hardware	195	65	130
Assets under capital leases	475	164	311
	$ 818	$ 271	$ 547

NOTE 6—BANK INDEBTEDNESS

At June 30, 1995, bank indebtedness included outstanding cheques of $157 and an outstanding balance of $804 under a $910 line of credit with interest at the prime rate plus 1.25%. The loan was secured by a general security agreement covering all assets and by an assignment of accounts receivable and was payable on demand. The weighted average interest rate on bank indebtedness during the year ended June 30, 1995 was 9.52%.

During 1996, interest costs on bank indebtedness was insignificant.

The Company and its subsidiaries have credit facilities totaling $7.6 million for which there are no significant commitment fees and no borrowings were outstanding under the lines of credit.

(in thousands, except share and per share data)

NOTE 7—PROVISION FOR RESTRUCTURING

As a result of the acquisitions made during fiscal 1996 and competitive factors in certain of the Company's markets, the Company initiated a plan in June of 1996 to eliminate redundancies by combining certain entities and exiting activities of several of the acquisitions and the Company. Activities the Company plans to exit include offering Internet Anywhere on a retail basis, marketing PC Search acquired through Intunix, offering Open Text 5 search engine as a stand-alone product, and refocusing its Open Text Index from a source of revenue to support for other activities. The restructuring activities are expected to be completed in the second quarter of fiscal 1997.

Included in the provision for restructuring are losses on contracts related to activities the Company will exit, totaling $1,639 and costs to close certain facilities of $700.

The restructuring reserve includes those costs outlined above as well as the write-down to net realizable values of redundant equipment and other facility related costs totaling $3,428. In addition, certain capitalized software and goodwill that will have no benefit to the Company as a result of the above circumstances were written off totaling $1,127 and are included in depreciation and amortization. The determination of the amount to be written off included a comparison of the expected future cash flows related to the particular intangible asset to the carrying amount of the intangible asset.

The Company will incur severance and relocation costs in September 1996 as a result of the restructuring plan. These charges will amount to approximately $1,000 and will be reflected in the results of operations in the fiscal quarter of 1997 in accordance with Emerging Issues Task Force Abstract 94-3, "Liability Recognition for Certain Employee Termination Benefits and other Costs to Exit an Activity."

NOTE 8—OBLIGATIONS UNDER CAPITAL LEASES

Minimum non-cancelable capital lease obligations are as follows:

1997	$722
1998	517
1999	295
	1,534
Less: Imputed interest	165
	1,369
Less: Current portion of obligations under capital leases	627
	$742

Interest paid on capital leases amounted to $91 in 1996 and $43 in 1995.

NOTE 9—SHARE CAPITAL

The authorized share capital of the Company is an unlimited number of Common Shares

In November 1995, the shareholders of the Company approved a reverse stock split in the ratio of one Common Share for every two Common Shares outstanding as of that date. All share and earnings per share amounts have been restated to reflect this reverse stock split.

(in thousands, except share and per share data)

NOTE 10—OPTION PLANS

1992 Stock Option Plan

Under the 1992 employee stock option plan, options to acquire an aggregate of 299,000 Common Shares were granted at prices ranging from $0.0001 to $4.38 per share. The options expire from 1994 to 1998. In August 1995, the Board of Directors canceled all remaining unexercised options under the 1992 employee stock option plan.

Miscellaneous Options

On March 22, 1995, fully vested options to acquire an aggregate of 1,520,000 Common Shares were granted to key officers at an exercise price of $0.15 per share. All of the options were exercised in August 1995 with non-recourse, interest-free loans.

1995 Flexible Stock Incentive Plan

In June 1995, the Company adopted the 1995 Flexible Stock Incentive Plan (the "Incentive Plan") for employees, officers, directors and consultants. The plan allows the grant of options to purchase an aggregate of 782,500 Common Shares, of which options to purchase an aggregate of 776,500 Common Shares were outstanding at June 30, 1995 at an exercise price of $0.15 per share, subject to the vesting provisions of the plan.

Options granted under the Incentive Plan vest over a four or five year period. Under the Incentive Plan, options are exercisable for a period of up to seven years from the grant date. Vested options terminate immediately upon an optionee's termination "for cause" and 90 days after termination for any other reason. Unvested options terminate immediately upon the termination of an optionee's employment or service to the Company.

During October 1995, additional options to purchase 250,000, 37,000 and 18,500 Common Shares were granted under the Incentive Plan at exercise prices of $3.87, $9.93 and $10.00, respectively.

The Company granted additional options arising from acquisitions under the Incentive Plan. A total of 25,578 options to purchase Common Shares were granted to shareholders of Intunix (see Note 4 - Acquitisions) at an exercise price of $5.62 and will vest as to 40% of the Common Shares immediately and the remainder over four years at a rate of 15% per year. A total of 32,092 options to purchase Common Shares were granted to the shareholders of NSG at an exercise price of $10.75 and will vest over the next four years. A total of 21,521 options to purchase Common Shares were granted to the shareholders of Nirv at an exercise price of $11.875 and vest immediately.

1995 Replacement Stock Option Plan

In October 1995, the Company adopted the 1995 Replacement Stock Option Plan (the "Replacement Plan"). The Replacement Plan provides for the granting of options to purchase an aggregate of 548,255 Common Shares to directors, officers, employees and consultants of Odesta who held options under Odesta's stock option plan. Options to purchase 548,255 Common Shares have been issued at an exercise price of US$0.0005 per share and vest immediately.

(in thousands, except share and per share data)

NOTE 10—OPTION PLANS (continued)

1995 Replacement Stock Option Plan (continued)

Under the Replacement Plan, options are exercisable for a period of a ten years from the grant date. Replacement Options terminate immediately upon the termination of an optionee's employment or service to the Company "for cause" and 90 days after termination for any other reason.

1995 Supplementary Stock Option Plan

In October 1995, the company adopted the 1995 Supplementary Stock Option Plan. This Plan provides for the granting of options to purchase an aggregate of 357,500 Common Shares to eligible former directors, officers and employees of Odesta. Options to purchase 357,500 Common Shares have been issued at an exercise price of US$14.00 per share. Options granted under the Supplementary Plan vest over a two-year period. Under the Supplementary Plan, options are exercisable for a period of ten years from the grant date. Vested options terminate 90 days after termination of an optionee's employment or service to the Company for any reason.

1995 Directors Stock Option Plan

The Directors Plan provides for the granting of options to purchase an aggregate of 50,000 Common Shares to eligible non-employee directors of the Company. At June 30, 1996, no options had been granted under the Directors Plan. In accordance with the Directors Plan, the Plan Administrator determines the non-employee directors fo the Company to whom options are granted, the number of Common Shares subject to each option, the exercise price and vesting schedule of each option.

As of June 30, 1996, options to purchase an aggregate of 1,794,756 Common Shares were outstanding under all of the Company's stock option plans, of which options to purchase 670,744 Common Shares were fully vested, and the remaining options vest over the next five years.

A summary of option activity since July 1, 1993 is set forth below:

	Options	
	Number	Price
Options outstanding at July 1, 1993	74,000	$0.0001 - $0.731
Granted during fiscal 1994	225,000	$1.46 - $4.38
Canceled and expired	—	—
Exercised	—	—
Options outstanding at June 30, 1994	299,000	$0.0001 - $4.38
Granted during fiscal 1995	2,296,500	$0.15
Canceled and expired	(295,667)	$0.0001 - $4.38
Exercised	—	—
Options outstanding at June 30, 1995	2,299,833	$0.0001 - $4.38
Granted during fiscal 1996	1,292,446	$0.0005 - $14.00
Canceled and expired	—	—
Exercised	(1,797,523)	$0.0001 - $3.87
Options outstanding at June 30, 1996	1,794,756	$0.0005 - $14.00

(in thousands, except share and per share data)

NOTE 11—COMMITMENTS

Operating leases

The Company has entered into operating leases for premises and equipment with minimum annual rents as follows:

1997	$1,775
1998	1,660
1999	1,555
2000	1,409
2001	1,192
Thereafter	813
	$8,404

Rent expense amounted to $65 in 1994, $179 in 1995 and $737 in 1996.

Research funding

Since July 1, 1991, the Company has agreed to fund three ongoing research projects. As of June 30, 1996, the Company expects to incur an additional $125 in expenditures net of recoveries through the completion of these projects. In addition, the Research Group of the University of Waterloo participates in various degrees in the above projects and invoices the Company as the University incurs expenses. As of June 30, 1996 the Company has been invoiced and has paid $202 to the University of Waterloo under this agreement.

NOTE 12—RESEARCH AND DEVELOPMENT

	Year Ended June 30,		
	1996	1995	1994
Gross research and development expenditures	$ 5,201	$ 1,087	$ 574
Investment tax credits	(670)	(378)	(71)
	$ 4,531	$ 709	$ 503

(in thousands, except share and per share data)

NOTE 13—INCOME TAXES

The Company's and its subsidiaries' income tax provision has been determined as follows:

	Year Ended June 30,		
	1996	1995	1994
Loss for the period	$(43,199)	$ (1,211)	$ (710)
Combined basic Federal and			
Provincial income taxes at 44.6% (44.3% as of June 30, 1995 and 1994)	$(19,267)	$ (536)	$ (315)
Decrease resulting from:			
Small business deduction	—	33	33
Non-deductible amortization, including acquired research and development	13,117	—	—
Unrecorded benefit of tax losses	6,150	503	282
Income tax provision	$ —	$ —	$ —

The Company's loss for the year is allocated to tax jurisdictions as follows:

	Year ended June 30,		
	1996	1995	1994
Canada	$ (40,033)	$ (1,211)	$ (710)
United States	(2,243)	—	—
Other	(923)	—	—
	$ (43,199)	$ (1,211)	$ (710)

For each of the three years in the period ended June 30, 1996, there was no current tax expense or benefit nor any deferred tax expense or benefit in any country due to the continuing losses of all companies in the consolidated group.

The Company and its subsidiaries has approximately $13,820 of losses and deductions available to reduce taxable income in future years, the benefit of which has not been reflected in the financial statements. Deductions of $2,400 have no expiration date, and the balance of losses expire as follows:

Year Ended June 30	
1997	$ 70
1999	370
2000	490
2001	790
2002	3,200
2003	6,500
	$11,420

(in thousands, except share and per share data)

NOTE 13—INCOME TAXES (continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and reporting purposes and amounts used for income tax purposes.

Significant components of the Company's deferred income tax balances consist of the following:

	Year Ended June 30, 1996	1995
Losses available to offset future income taxes	$ 5,060	$ 482
Research and development expenses deducted for accounting in excess of tax	1,060	372
Share issue costs	2,700	22
Other differences	350	(248)
Net deferred tax assets	9,170	628
Less: Valuation allowance	(9,170)	(628)
	$ —	$ —

The Company's subsidiaries had no significant deferred tax components.

The Company has maintained its 100% valuation allowance on the net deferred tax asset because of the lack of profitability in the past, the significant risk that taxable income will not be generated in the future and the nontransferable nature of the deferred tax assets under certain conditions.

NOTE 14—RELATED PARTY TRANSACTIONS

In 1996, the Company purchased 137,500 common shares of an other investment from a shareholder of the Company for $550 which represented the carrying cost of the investment.

In fiscal 1995, a shareholder loaned the Company $146 at an interest rate of 2.5% per annum above the prime bank rate. The loan was repaid prior to the end of fiscal 1995 with interest amounting to $4.

NOTE 15—FOREIGN REVENUE AND MAJOR CUSTOMERS

The Company licenses its software internationally and generates revenues from customers outside Canada, primarily the United States. The following table summarizes revenues from foreign customers for the periods indicated:

	Year Ended June 30, 1996	1995	1994
United States	$ 4,427	$ 1,717	$ 818
Europe	1,110	113	492
Japan	1,159	108	16
Korea	921	—	—
Other foreign countries	498	—	—
	$ 8,115	$ 1,938	$ 1,326

(in thousands, except share and per share data)

NOTE 15—FOREIGN REVENUE AND MAJOR CUSTOMERS (continued)

In fiscal 1996, no customers accounted for 10% or more of total revenues. In fiscal 1995, two customers accounted for 14% and 11%, respectively, of total revenues. In fiscal 1994, one customer accounted for 17% of revenue.

NOTE 16—SEGMENTED INFORMATION

The Company's operations consists of a single line of business to develop, market, license and support software. This software enables users to find electronically stored information, work together in creative and collaborative processes, and distribute or make available to users across networks or the Internet the resulting work product or information.

The Company has sales and marketing operations located outside North America, primarily in Europe.

Financial data by geographic area:

	North America	Europe	Total
Revenues:			
1996	$ 8,927	$1,068	$9,995
1995	2,479	—	2,479
1994	1,728	—	1,728
Loss from operations:			
1996	(43,816)	(877)	(44,693)
1995	(1,103)	—	(1,103)
1994	(614)	—	(614)
Identifiable assets			
1996	65,104	1,054	66,158
1995	2,597	—	2,597

(in thousands, except share and per share data)

NOTE 17—SUPPLEMENTAL CASH DISCLOSURES

	June 30, 1996	1995	1994
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	$ 129	$ 108	$ 96
Supplemental Schedule of noncash investing and financing activities:			
Equipment purchased under capital leases	2,007	71	308
Conversion of special warrants to Common Shares	8,673	—	—
Acquisitions (see Note 4)		—	—
Assets acquired, excluding cash	419	—	—
Purchased software	979	—	—
Goodwill and other intangible assets	1,890	—	—
Purchased research and development	27,555	—	—
Liabilities assumed in acquisitions	1,103	—	—

NOTE 18—SUBSEQUENT EVENTS

Increase in Common Shares available under the 1995 Flexible Stock Incentive Plan

Subject to shareholder approval, the Board of Director increased the number of Common Shares available under the 1995 Flexible Stock Incentive Plan by 1,000,000 Common Shares. A significant portion of the additional shares are not eligible under the option exchange program.

Option Exchange Program

Subject to shareholder approval, the Board of Directors on September 10, 1996 authorized an option exchange program whereby employees who have been granted options to acquire Common Shares of the Company under the 1995 Flexible Stock Incentive Plan and the 1995 Supplementary Stock Option Plan may exchange those options on a one-for-one basis, for an option to acquire Common Shares of the Company with an exercise price of $4.25 (the "new stock options"). The new stock options will vest and become exercisable, as to 10% of the Common Shares subject to option, the later of six months after the date of grant or the date the original option was scheduled to first vest (the "initial vesting date"), as to the next 10% of the Common Shares subject to option, six months after the initial vesting date, and as to the remainder of the Common Shares subject to option, 5% at the end of each quarter following one year after the initial vesting date.

The options that would be subject to exchange have an average exercise price of $12.89.

Stock-based compensation costs will be recognized by the Company on the difference between the exercise price of the new stock options and the market value of the Common Shares of the Company at the date of grant. As of September 16, 1996, no significant compensation costs would arise from the grant of new stock options. As of June 30, 1996, there is no unamortized deferred compensation costs.

NOTE 18—SUBSEQUENT EVENTS (continued)

Restructuring Charges

As outlined in Note 7 the Company has adopted a restructuring plan. As a result of this restructuring, in September 1996, approximately 36 employees were terminated from various operations within the Company. The changes will result in a charge to income during the first quarter of fiscal 1997 of approximately $1,000.

Investment

In September, 1996, the Company, together with a company controlled by a director of the Company and individuals not related to the Company, incorporated MacRAE's O.E.M. Mart, Inc., a Delaware Corporation ("MacRAE's"). The Company retained a 70% interest in MacRAE's. On that date, the Company also loaned $1,100 to MacRAE's in the form of a subordinated debenture bearing an annual interest rate of 7.08% and repayable on December 31, 2007. MacRAE's will be accounted for as a subsidiary.

MacRAE's purchased, from the company controlled by a director of the Company, for $365 the business to publish and sell the industrial directory, "MacRAE's Blue Book" and sell print advertising and information services in combination with sponsorships on its industry content web site, "Internet Mall."

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information concerning the Company's directors will be contained in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934 for the annual meeting of stockholders or in an amendment to the Form 10-K and is incorporated herein by reference. Information concerning the Company's executive officers is set forth under Part I of this report.

Item 11. Executive Compensation

Information concerning this item will be contained in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934 for the annual meeting of stockholders or in an amendment to the Form 10-K and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information concerning this item will be contained in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934 for the annual meeting of stockholders or in an amendment to the Form 10-K and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Information concerning this item will be contained in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934 for the annual meeting of stockholders or in an amendment to the Form 10-K and is incorporated herein by reference.

PART IV

Item 14. Exhibits and Reports on Form 8-K

a) The following documents are filed as a part of this report:

1) Consolidated Financial Statements and Report of Independent Accountants are included under Item 8, in Part II.

2) Consolidated financial Statement Schedules and Report of Independent Public Accountants in those schedules are included as follows:

None.

3) Exhibits: The following exhibits are filed as part of this Report.

Exhibit Number	Description of Exhibit
1.1	Underwriting Agreement. (1)
3.1	Articles of Incorporation of the Company. (1)
3.2	Articles of Amalgamation of the Company. (1)
3.3	Articles of Amendment of the Company. (1)

3.4	By-law No. 1 of the Company. (1)
3.5	Articles of Amendment of the Company. (1)
3.6	By-law No. 2 of the Company. (1)
3.7	By-law No. 3 of the Company. (1)
3.8	Articles of Amalgamation of the Company. (1)
4.1	Form of Common Share Certificate. (1)
*10.1	Restated 1995 Flexible Stock Incentive Plan. (3)
*10.2	1995 Replacement Stock Option Plan. (1)
*10.3	1995 Supplementary Stock Option Plan. (1)
*10.4	1995 Directors Stock Option Plan. (1)
10.5	Assignment of License to Commercialize and Market the Technology, dated January 25, 1990, between Gaston Henry Gonnet and Frank William Tompa and Open Text Systems, Inc. (1)
10.6	Technology Licensing Agreement, dated June 20, 1991, between Dr. Gaston Gonnet and 940610 Ontario Inc. (1)
10.7	Representations and Warranties, dated June 30, 1991, to the Company from Open Text Systems Inc. (1)
10.8	Amendment to Research Funding Agreement, dated October 31, 1995, between the University of Waterloo and the Company, and Research Funding Agreement, dated July 1, 1991, between the University of Waterloo and the Company. (1)
10.9	Technology Licensing Agreement, dated July 1, 1991, between Dr. Frank Tompa and the Company. (1)
10.10	Assignment Agreement, dated August 25, 1995, between Dr. Frank Tompa and 1136390 Ontario, Inc. (1)
10.11	License Agreement, dated August 25, 1995, between the University of Waterloo and the Company. (1)
10.12	Technology Development Agreement, dated August 25, 1995, between the University of Waterloo and the Company, and Amendment No. 1 thereto. (1)
10.13	Letter of offer, dated January 19, 1994, between the Canadian Strategic Software Consortium and the Minister of Industry, Science and Technology, Canada. (1)
10.14	Representation Letter, dated November 30, 1993, to Helix from the Company. (1)
10.15	Special Warrant Indenture, dated July 19, 1995, between Montreal Trust Company of Canada and the Company. (1)
10.16	Underwriting Agreement, dated July 19, 1995, between Yorkton Securities Inc., Midland Walwyn Capital Inc., Griffiths McBurney & Partners Inc. and the Company. (1)
10.17	Extraordinary resolution of the holders of Special Warrants of the Company, dated September 14, 1995. (1)
10.18	Share Purchase Agreement, dated July 31, 1995, between 9023-6233 Quebec Inc., 1136299 Ontario Limited, Mortice Kern Systems Inc. and the Company. (1)

10.19	License Agreement, dated August 1, 1995, between Mortice Kern Systems Inc. and 1136299 Ontario Limited. (1)
10.20	Subscription Agreement, dated September 14, 1995, between Helix (PEI) and the Company. (1)
10.21	Amended and Restated Agreement and Plan of Merger, dated October 10, 1995, between Open Text Acquisition Corporation, Odesta Systems Corporation, Daniel Cheifetz, and the Company. (1)
10.22	Purchase Agreement, dated October 12, 1995, between Intunix AG and the Company. (1)
†10.23	Joint Development Agreement, dated September 5, 1995, between Yahoo! and the Company. (1)
†10.24	License Agreement, dated September 15, 1995, between networkMCI and the Company. (1)
†10.25	Equipment Agreement, dated September 15, 1995, between networkMCI and the Company. (1)
†10.26	License Agreement, dated June 12, 1995, between International Business Machines, Inc. and the Company. (1)
†10.27	Amendment #1 to License Agreement, dated September 9, 1995, between International Business Machines, Inc. and the Company. (1)
†10.28	Teaming Agreement, dated April 12, 1995, between Oracle Corporation and Odesta Systems Corporation, and Amendment One to Teaming Agreement, dated September 27, 1995 between Oracle Corporation and Odesta Systems Corporation. (1)
10.29	Commitment Letter, dated March 20, 1995, between Royal Bank of Canada and the Company. (1)
10.30	Commitment Letter, dated May 10, 1995, between Royal Bank of Canada and the Company. (1)
10.31	Security Agreement, dated May 29, 1992, between Royal Bank of Canada and the Company. (1)
10.32	Lease, dated March 3, 1994, between Wiebe Property Corporation Ltd. and the Company. (1)
10.33	Lease, dated October 6, 1994, between REGUS/Washington Tysons, Inc. and the Company. (1)
10.34	Lease, dated September 1, 1992, between CB Commercial Real Estate Group, Inc. and Odesta Systems Corporation. (1)
10.35	License for possession, dated August 30, 1995, between Motorola, Inc., and Odesta Systems Corporation. (1)
*10.36	Agreement, dated January 1, 1995, between Tom Jenkins and the Company. (1)
*10.37	Letter Agreement, dated November 30, 1995, between Michael Farrell and the Company. (1)
*10.38	Letter Agreement, dated November 30, 1995, between Saman Farazdaghi and Open Text Systems, Inc. and the Company. (1)
*10.39	Letter Agreement, dated May 19, 1995, between Peter Broughall and the Company. (1)

*10.40	Letter Agreement, dated November 30, 1995, between Ellen Beingessner and the Company. (1)
*10.41	Letter Agreement, dated August 21, 1995, between Bill McAndrew and the Company. (1)
*10.42	Letter Agreement, dated September 12, 1995, between David Weinberger and the Company. (1)
*10.43	Employment Agreement, dated October 13, 1995, between Marco Palatini and the Company. (1)
*10.44	Employment Agreement, dated October 19, 1995, between Daniel Cheifetz and the Company. (1)
*10.45	Letter Agreement, dated August 19, 1993, between Leo Levin and the Company. (1)
10.46	Consent to stand for election, dated October 31, 1995, from Michael F. Farrell. (1)
10.47	Consent to stand for election, dated October 31, 1995, from Marco Palatini. (1)
10.48	Amending Agreement, dated October 31, 1995, between Yorkton Securities Inc., Midland Walwyn Capital Inc., Griffiths McBurney & Partners Inc. and the Company. (1)
10.49	Form of Subscription Agreement for Canadian Purchasers, September Share Issuance. (1)
10.50	Form of Subscription Agreement for US Purchasers, September Share Issuance. (1)
10.51	Subscription Agreement, dated October 31, 1995, between Technology Crossover Ventures, L.P. and the Company. (1)
10.52	Subscription Agreement, dated October 31, 1995, between Technology Crossover Ventures, C.V. and the Company. (1)
10.53	Form of Registration Rights Agreement, between Technology Crossover Ventures, L.P., Technology Crossover Ventures, C.V. and the Company. (1)
10.54	Form of Lock-up Agreement, dated October 31, 1995, between the Shareholders, and Option Holders of the Company and Montgomery Securities, Punk, Ziegel & Knoell and RBC Dominion Securities Corporation. (1)
10.55	Indemnity, dated November 29, 1995, between Warren L. Culpepper and Helix Investments (Canada) Inc. (1)
10.56	Indemnity, dated November 28, 1995, between John G. Roche and Helix Investments (Canada) Inc. (1)
10.57	Confirmation letter, dated November 1, 1995, between Netscape Communications Corporation and the Company. (1)
†10.58	OEM License Agreement, dated November 10, 1995, between Netscape Communications Corporation and the Company. (1)
10.59	Amending Agreement, dated October 6, 1995, between Helix (PEI) and the Company. (1)
10.60	Indemnity, dated December 22, 1995, between Daniel Cheifetz and Helix Investments (Canada) Inc. (1)
10.61	Shareholders' Agreement, dated June 30, 1992, with certain amendments. (1)

10.62	Forms of Compensation Option Agreement, dated July 19, 1995 between Yorkton Securities Inc., Midland Walwyn Capital Inc., Griffiths McBurney & Partners Inc. and the Company. (1)
10.63	Share Purchase Agreement dated June 28, 1996 between Open Text Corporation and the shareholders of InfoDesign Corporation. (2)
*10.64	Employee Stock Option Plan. (3)
*10.65	Documentation relating to stock option grants and subsequent option exercises for Messrs. Jenkins, Farrell and Farazdaghi. (3)
*10.66	Employment Agreement, dated May 30, 1996, between the Company and Keith Soley.
*10.67	Employment Agreement, dated July 11, 1996, as amended, between the Company and William Stirlen.
10.68	Lease, dated February 19, 1996, between New York Life Insurance Company and Odesta Systems Corporation.
21.1	List of the Company's Subsidiaries.
23.1	Consent of Price Waterhouse.

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* This document has been identified as a management contract or compensatory plan or arrangement.

† Portions of these exhibits, which are incorporated by reference to Registration No. 33-98858, have been omitted pursuant to an Application for Confidential Treatment filed by the Company with the Securities and Exchange Commission pursuant to Rule 406 of the Securities Act of 1933, as amended.

(1) Filed as an Exhibit to the Company's Registration Statement on Form F-1 (Registration Number 33-98858) as filed with the Securities and Exchange Commission (the "SEC") on November 1, 1995 or Amendments 1, 2 or 3 thereto (filed on December 28, 1995, January 22, 1996 and January 23, 1996 respectively), and incorporated herein by reference.

(2) Filed as an Exhibit to the Company's Report on Form 8-K, as filed with the SEC on July 15, 1996 and incorporated herein by reference.

(3) Filed as an Exhibit to the Company's Registration Statement on Form S-8 (Registration Number 333-5474) as filed with the SEC on August 23, 1996 and incorporated herein by reference.

b) Reports on Form 8-K.

A Current Report on Form 8-K, dated June 28, 1996, was filed to report the acquisition of all of the issued and outstanding shares of InfoDesign Corporation, a Virginia Corporation and all of the issued and outstanding shares of InfoDesign Corporation, an Ontario Corporation, under Item 2. Financial statements and pro forma financial information were timely filed on Form 8-K/A.

A Current Report on Form 8-K was filed on September 27, 1996 to report the settlements of various legal proceedings of the Company.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: September 30, 1996

OPEN TEXT CORPORATION

/s/ P. Thomas Jenkins
P. Thomas Jenkins
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities indicated below on the dates indicated.

Signature	Title	Date
/s/ P. Thomas Jenkins P. Thomas Jenkins	Director and President (Principal Executive Officer)	September 30, 1996
/s/ William Stirlen William Stirlen	Chief Financial Officer (Principal Financial Officer and Accounting Officer)	September 30, 1996
/s/ Michael F. Farrell Michael F. Farrell	Director and Executive Vice President	September 30, 1996
/s/ Marco Palatini Marco Palatini	Director and Executive Vice President	September 30, 1996
/s/ Donald C. Webster Donald C. Webster	Chairman of the Board of Directors	September 30, 1996
/s/ John G. Roche John G. Roche	Director	September 30, 1996
/s/ Dr. Frank W. Tompa Dr. Frank W. Tompa	Director and Secretary	September 24, 1996
/s/ Richard C. Black Richard C. Black	Director	September 30, 1996
/s/ Warren L. Culpepper Warren L. Culpepper	Director	September 25, 1996
/s/ Daniel Cheifetz Daniel Cheifetz	Director	September 30, 1996

BOARD OF DIRECTORS:
Mr. Donald C. Webster
Chairman
Helix Investments (Canada) Inc.

Mr. Tom Jenkins
Open Text

Dr. Frank W. Tompa
Secretary
University of Waterloo

Mr. Warren Culpepper
Culpepper and Associates, Inc.

Mr. Richard Black
Helix Investments (Canada) Inc.

Mr. John Roche
BRP Publications Inc.

Mr. Daniel Cheifetz
Open Text

Mr. Mike Farrell
Open Text

Mr. Marco Palatini
Open Text

EXECUTIVES:
Mr. Tom Jenkins
President and Chief Executive Officer

Mr. Keith Soley
Chief Operating Officer

Mr. Bill Stirlen
Chief Financial Officer

Mr. Daniel Cheifetz
Executive Vice President
Research and Development

Mr. Mike Farrell
Executive Vice President,
Corporate Development

Mr. Abraham Kleinfeld
Executive Vice President
Business Development

Mr. Peter Broughall
Vice President
Technical Services

Mr. David Seaman
Vice President
Professional Services

Dr. David Weinberger
Vice President
Strategic Marketing

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ANNUAL MEETING:
February 24, 1997

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National Market System
Ticker Symbol: OTEXF

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